

1925  
Box 1

RAILWAYS ACT, 1921.

PROCEEDINGS OF THE RAILWAY  
RATES TRIBUNAL.

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SCHEDULES OF STANDARD CHARGES.

ALLOWANCES UNDER SECTION 58 (1).

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TUESDAY, JUNE 9TH, 1925.

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TWENTIETH DAY.

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1925

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# PROCEEDINGS OF THE RAILWAY RATES TRIBUNAL.

TUESDAY, JUNE 9TH, 1925.

## PRESENT :

W. B. CLODE, Esq., K.C., *President.*

W. A. JEPSON, Esq.

GEO. C. LOCKET, Esq., J.P.

## TWENTIETH DAY.

THE RT. HON. P. H. MACMILLAN, K.C., Mr. A. C. CLAUSON, K.C., Mr. BRUCE THOMAS, and Mr. ALFRED TYLOR (instructed by the Solicitors of the Amalgamated Railway Companies) appeared for the Railway Companies.

Mr. F. B. MERRIMAN, K.C., Mr. F. G. THOMAS, K.C., and Mr. JACQUES ABADY (instructed by Messrs. Vizard, Oldham, Crowders, and Cash) appeared for the Traders' Co-ordinating Committee (including the Mining Association of Great Britain); for the National Association of Railway Travellers; for the following local authorities: The Boroughs of Leeds, Cardiff, Oldham, St. Helens, West Ham, East Ham, Gravesend, Richmond, Dartford, Southport, Watford, Leamington Spa, Morecambe,

and Rothesay; and for the Urban District Councils of Mitcham, Heston and Isleworth, Teddington, Walington, Surbiton, Harrow-on-the-Hill, Prestwich, Epsom, Carshalton, Barnet, Hampton, Bexley Heath, and Staines.

THE HON. STAFFORD CRIPPS appeared for the London County Council.

Mr. CYRIL HURCOMB, C.B., C.B.E., appeared for the Ministry of Transport.

Mr. HERBERT MORRISON appeared for the Joint Council of the Trade Union Congress and the Labour Party; and for the London Labour Party.

Mr. J. H. WORRALL appeared for the National Anti-Profiteering Society.

## JUDGMENT.

In the course of the proceedings to determine "Standard Revenues" for the four Amalgamated Companies under Section 53 of the Railways Act, 1921, there has been placed before us for our approval an Agreement dated the 13th May, 1925, between the Traders' Co-ordinating Committee on the one part and the four Amalgamated Companies on the other part under which the amount of what is known as the "economy allowance," (or the allowance which the Tribunal are directed by the Proviso to Section 53 (1) of the Act to make) has been agreed between those parties.

The Traders' Co-ordinating Committee is a Committee which represent for this purpose the interests of some 600 objectors who have entered separate appearances and who but for the Committee would be entitled to separate representation and to be separately heard.

The four amalgamated companies are also acting through a committee which represents all their interests.

Both these representative committees strongly support the terms of the Agreement and ask us to approve it. The only opponent is the London County Council, and their objections will be dealt with later.

The object of the Agreement is to define and limit the amount of the allowance which the railway companies can claim now and hereafter under the proviso.

Before considering the language of the material provisions of the Act of 1921 in detail the general scheme of it may be explained. The object of the part of it with which we are now dealing is to fix "Standard Revenues" for the four companies respectively, to ascertain periodically the actual net

revenues which they are making, to contrast these with the respective Standard Revenues which they are entitled to make, and subject to certain qualifications, modify the charges so that any excess revenue which they may be making over the "Standard Revenue" may in subsequent years be divided between the users of the railway and the companies, giving four-fifths to the users in reduction of charges and one-fifth to the company; the one-fifth becoming a permanent addition to the Standard. Apart from increase in traffic over and above the estimates, and any reduction in wages and cost of coal stores etc., any excess of "actual" over "standard" revenue shewn at the earlier reviews may be expected to be largely the result of savings or economies in working and management expenses due to amalgamation.

Conversely where a deficiency of actual below standard appears there is nothing to divide, and the only thing is, again subject to certain qualifications, to raise the charges to make the "actual" reach the "standard" in the subsequent year.

Such is the general scheme of the Act after the "Standard Revenue" has been fixed, and so far leaves the destination of any savings made before the first fixation of charges and Standard Revenue unprovided for.

It is with this period that the proviso to Section 53 (1) deals. If the companies take early steps for economies in working and management expenses rendered possible by or in anticipation of amalgamation, the Tribunal are directed to take into consideration the economies effected by such steps already taken and make such allowance in respect thereof as the Tribunal may consider fair and equitable to an amount not exceeding one-third of such economies.

It will be noted that the companies are here given one-third and not one-fifth and it is specifically stated

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that this is done "with a view to encouraging the taking of early steps for effecting economies in working and management expenses."

It is with the amount of the "allowance" under this proviso that the agreement deals.

What in fact has happened is as follows: In order to give all parties the opportunity of considering and afterwards of agreeing to or objecting to the railway companies' claims in connection with the ascertainment of Standard Revenue the Tribunal have required the railway companies to file detailed particulars of all such claims, and to make them available for all opponents. In pursuance of this requirement the railway companies have filed *inter alia* particulars of their claims under the foregoing proviso and have so framed their Schedules as to show how and in what way the four companies have effected economies "rendered possible by or in anticipation of amalgamation" and also that for the four companies they amount to about £1,400,000 up to and including the 30th June, 1924, in most cases, although some extend to the 31st December, 1924.

In delivering these Schedules of particulars the companies intimated that they were partial and provisional statements only and that they held themselves entitled to deliver further and supplemental schedules bringing their lists of economies up to the latest possible date, viz.: the date at which the allowance would be made and finally dealt with. We think that this claim of the railway companies was well founded.

It should be stated that the Tribunal have always urged the parties in the interests of economy of time and money so far as possible to agree amongst themselves all such matters as are susceptible of Agreement and so reduce the volume of contested matter which must come to the Tribunal. At the same time the Tribunal have always maintained control over matters agreed and ascertained that the matter when agreed conforms to and satisfies the requirements of the Statute.

In pursuance of this policy the two committees met and went fully into the details of the claims of the four companies, questioned various items considered to be typical and called for further particulars and at last arrived at the agreement dated the 13th May, 1925.

It need not be set out in detail as it is not the precise language of the agreement that is in question. In any case the document is available.

The effect of it is to settle once for all the amount of the allowance which the four railway companies can claim under the proviso at £400,000 which has subsequently been divided between the four companies as follows:—

	£
London and North Eastern Railway Company	91,000
London, Midland and Scottish Railway	139,000
Great Western Railway Company	93,000
Southern Railway Company	77,000

It arrives at this result, however, by what may perhaps be considered as rather an artificial method. It will be borne in mind that the railway companies' claims included in the particulars delivered amounted to £1,400,000, and this was the sum which the Traders' Committee went into conference to deal with. They accordingly criticised it and were engaged in reducing it to £1,200,000, when in the course of the discussion it was ascertained that economies were still in progress and that the traders might expect, before the allowance was made by the Tribunal, further particulars from the railway companies of economies amounting to about as much again as the claims already filed. The question then arose as to the percentage allowance upon all these present and future economies which the railways would claim. At this point apparently the railway companies made the following concession. They stated that if the traders would join them in a request to obtain from

the Tribunal 33½ per cent. on the £1,200,000, and if the Tribunal granted such request they would take the £400,000 so obtained in satisfaction of their claim in respect of the £1,400,000 and all future claims. The £400,000 to be an addition to the "Standard Revenue," which both parties agreed it must in any case be, whether the amount of it was fixed by agreement or determined by the Tribunal.

We have satisfied ourselves by the examination of witnesses on behalf of the traders and the railway companies that economies of approximately £1,200,000 have already been effected by the railway companies and we see no reason to doubt the evidence of the witnesses called by the railway companies that further economies of a like amount might be expected to be effected if the railway companies were to insist on keeping the question of amount open until the allowance was actually made, that is when the charges required to produce the standard revenue are fixed, and then include in their further particulars all the economies which they had effected in the interval.

This Agreement arrived at under the circumstances above mentioned, we are asked to approve.

Both the traders and the railway companies are very anxious that it should be approved. The traders because a present settlement of not only current but future claims is manifestly to their interest; inasmuch as the longer the matter is left open the larger the railway companies' claims may be expected to be.

The railway companies, on their part, are willing to forego a substantial part of their claims for an ascertained committed payment, and so to set the matter to rest once for all.

Evidence has been led both by the traders and the railway companies which satisfied us that the terms of the agreement are fair and reasonable and no evidence to the contrary has been led by anyone. Nor, indeed, has any argument been addressed to us upon the matter except by counsel on behalf of the London County Council, whose objections we have heard and fully considered.

Their objections are in law, and founded upon the words of the Statute which they submit will not be complied with if the Agreement is confirmed and acted upon.

In the first place they say that the amount of the allowance cannot be fixed at the present stage, but only when the Tribunal are considering at a later stage of this inquiry what annual net revenue the charges to be fixed under Section 58 (1) will with efficient and economical working and management yield.

In our opinion this is not the necessary or true interpretation of the language of the proviso. No doubt it defines the occasion on which the allowance shall be "made" and says that upon the occasion of the first fixation of charges it shall be "made" in determining the sum which the charges will, with efficient and economical working and management, yield. And this is what we propose to do. But it does not say that only at that time can the amount of the allowance be fixed. The amount of the allowance having been determined under the Agreement with the approval of the Tribunal, it will be "made" as the Statute provides in determining the sum which the charges will yield.

The practical inconvenience of delaying the fixation of the amount of the allowance which the Tribunal will give until the time when the Tribunal are engaged in fixing charges which will yield the Standard Revenue is considerable. Not knowing the amount of the allowance the Railway Companies cannot well budget charges to yield it; they will therefore have to submit charges in the first instance which must be recast so soon as the amount of the allowance is known. If they know the amount of the allowance before they frame their "budget" they can submit charges sufficient to meet it.

So far as the London County Council represent freighters and passengers, and it is difficult to see what other interests they can claim to represent, it would seem that they are so much interested as

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other representatives of those interests in getting the "allowance" fixed as early and at as small a figure as possible.

The further suggestion, which we understood to be made, that by fixing the amount of the allowance now we shall be hampered when considering under Section 58 (1) what the proposed charges will with efficient and economical working and management yield does not appear to us well founded. The economies which have been made before the fixation of the charges will no doubt be reflected in the working expenses which will then be put before us for consideration, but in considering these working expenses and how and in what way they can be further reduced in the future we shall be placed under no limitation by reason of having fixed the amount of an allowance for what has been done in the past.

The second objection is that it is a term of the Agreement that the allowance is to be added to the "Standard Revenue." In our opinion this is what the Act intends and prescribes in any case, whether the amount of the allowance is fixed by the Tribunal or by Agreement between the parties.

The suggestion is that under the terms of the Statute the "allowance" is only a bonus for a limited period and disappears at the conclusion of that period, the period suggested being, we gather, that which intervenes between the appointed day when the "standard" first begins to operate and the time when the first review under Section 59 takes place.

If this is so the encouragement to take early steps to economise disappears because it would have been better policy for the Railway Companies to have postponed economies and have thus got a large permanent one-fifth at the first review than a one-third for a temporary period which will be short, viz.: up to the end of the first complete year after the appointed day. For this would have been the result if they had postponed all their economies until after the "Standard Revenue" had been fixed.

But apart from this consideration the language of the Statute points to the allowance being permanent.

Here two points arise. First, whether the allowance is an addition to the Standard Revenue, secondly, whether being an addition it is a permanent or temporary one.

It is difficult to escape the conclusion that Parliament intends to make the allowance an addition to the Standard Revenue, because not only must the allowance be of any benefit to the railway companies be placed by some method into the Standard Revenue and the charges adjusted to meet it, but, as if to emphasise this, the proviso directs the Tribunal at the very time at which they are determining the "net annual revenue" or "sum" which the charges will yield to "make" the allowance before they arrive at a conclusion. Unless their decision in the matter of the allowance is reflected in the sum which they "determine," the Tribunal will not be fulfilling the injunctions of the Statute.

Then is it to be a temporary or a permanent allowance?

Here the first thing to be ascertained is whether, when a total sum which is the "Standard Revenue" has been found and the allowance, as it were incorporated into the Standard Revenue by the decision of the Tribunal the allowance retains a separate existence.

There is nothing in the Act that indicates that it does.

The Act calls into existence a "Standard Revenue" which is the result of the Tribunal's decision upon the "net annual revenue" under Section 58 (1) after giving effect to the proviso: and it is this "Standard Revenue" which is to be used upon the occasion of the first review and all subsequent reviews, and if necessary "increased."

The Act nowhere makes provision for any subsequent deductions from the "Standard" of the allowance.

There appear to be, therefore, provisions in the Act for making "the allowance" an addition to the Standard Revenue, and no provision for putting the

allowance anywhere else or when it has been made a part of the Standard Revenue taking it off: and both the traders and the railway companies are satisfied that this is its proper destination.

We are of opinion that this is the proper interpretation of the Statute.

The proviso appears to be properly appended to Section 58 (1). But for the proviso, the Tribunal would have been under an obligation to determine a "net annual revenue equivalent to the aggregate net revenue" for 1913 plus the allowance under (a), (b) and (c): by the proviso they are entitled to make it larger by the amount of the allowance which they make under it. The proviso therefore fulfils the recognised function of a proviso: it qualifies the generality of the language of the Section to which it is appended.

Further, if any justification is needed for the method which is adopted of dealing with this matter by way of proviso it may be found in the following consideration. Assuming that Parliament intended to place allowances for economies whether made before or after the appointed day upon the same basis, but to differentiate them only in amount, and had decided that these allowances should take the form of "ad hoc" additions to the "Standard Revenue" it will be seen that the provisions of Section 59 and those of the proviso exactly effect this purpose; under both "allowances" are added to the "Standard Revenue" and both are made thereby permanent.

Having arrived at the conclusion that the agreement is fair and reasonable, and that it is in the interest of the public, the traders and the railway companies to have the amount of the allowance speedily and cheaply fixed, and that the objections in law of the London County Council are not well founded, we approve the Agreement.

*President:* Any formal Order which may be necessary I dare say you could agree with Mr. Bruce Thomas, and on application to the Registrar he will draw the Order up.

Now, Mr. Macmillan, what statement would you propose to take next?

*Mr. Macmillan:* We are in a position to-day to make a further substantial advance towards the final ascertainment of the Standard Revenue of each of the amalgamated companies under Section 58 (1) of the Act of 1921. I thought it might be useful at this stage to recapitulate very briefly the progress which has been made up to date and to define the position now reached. As you are so well aware, the Standard Revenue of each company consists of five factors. The main factor, the first factor, is the equivalent of the aggregate net revenues for 1913 of the constituent and subsidiary companies merged in each amalgamated company. So far as that, the first factor for consideration, is concerned, we have ascertained and determined it for each company subject only to one reservation, namely, the question of the adequacy or inadequacy of the maintenance item appearing in the 1913 accounts, this point, as you will recall, having been postponed expressly in order that it might be considered and determined when the expenditure accounts for the A., or Ideal, year came up for consideration. That is the position of the first and leading factor in the ascertainment of the Standard Revenue.

Then we come to paragraph (a), which is the second factor, the first of the additional factors, the 5 per cent. on certain defined capital which is described in the paragraph. As you recall, there has been a certain amount of adjustment upon the figures originally tabled. There was a little difficulty in ascertaining the appropriate figure to place in that compartment, due to the fact that the accounts had not been finally closed as between the Government and the companies. Various topics were mooted in that connection, and now I am in a position to hand you this morning a statement in the form of a table which gives effect to the concessions of the companies and the decisions of the Tribunal upon all the points which have arisen under this head. This document,



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which I now hand in and make available for my friends, is the completion of the contents of paragraph (a), and, so far as we are aware, it is a complete and final ascertainment of the sum to be added under paragraph (a) to the aggregate net revenues in the case of each amalgamated company.

(Table handed to the Tribunal.)

*Mr. Jepson:* I suppose it also gives effect to the points raised by Mr. Hurcomb?

*Mr. Macmillan:* Every point which the Minister has brought up has already received effect. If you will be good enough to look at it for a moment you will see what has been done. It is of some interest, I think, to link up these finally ascertained figures with the figures originally presented, so that you may see what alterations have been made in consequence of the concessions of the companies and the decisions of the Tribunal. But, first of all, I draw attention to the document before you merely for the purpose of describing its contents.

*President:* Is it necessary to mark it for further reference, because if it goes on the notes I suppose we shall be referring to it at some future time?

*Mr. Macmillan:* I suggest, Sir, that its heading is really adequate, as you will notice that under the general heading "Standard Revenue—Railways Act, 1921," the table is entitled "Item No. 3 (R.T. 2a, 3a, 4a, 5a)," so that really the heading is self-explanatory.

*President:* I will put the date on it.

*Mr. Macmillan:* The date is the 8th of June, 1925. The description of the contents of the table is given at the head: "Capital Expenditure forming the basis on which interest was allowed at the end of the period during which the constituent companies were in possession of the Government, viz., 15th August, 1921 (as per Section 58 (1) (a)), amended in accordance with the decisions of the Railway Rates Tribunal on the 26th May, 1925." What has been done has been to put on the first line in the case of each company the total expenditure of this class as contained in what one may call the intermediate document; that is to say, Schedule C amended and revised. That was the stage which we had reached. Then certain deductions are made in consequence of proposals of the railway companies and the decisions of the Tribunal, and you will see in the case of the London and North Eastern Railway Company there is a deduction in respect of the capitalised value of rent charges, a matter which was, of course, very fully explained before. Similarly with regard to the Forth Bridge Railway Company's expenditure, an item of £25,194 is deducted. These deductions having been made to arrive at the total figure of capital expenditure of £14,053,951, and as the Statute is directory upon the amount of the allowance of such capital expenditure, namely, 5 per cent., we have only then to complete the calculation by taking 5 per cent. upon that, which comes to £702,698.

In the case of the London, Midland and Scottish Railway Company, the only deduction is in respect of capitalised value of rent charges, etc., and that having been made we reach a capital expenditure of £11,398,139, five per cent. on which is £569,907.

In the case of the Great Western Railway Company it was not necessary to make any deduction, because it had no rent charges of the same type as the London and North Eastern Railway Company and the London, Midland and Scottish Railway Company. Therefore the figures remain there, as before.

With regard to the Southern Railway Company a small deduction of £804 was necessitated, bringing out their capital under this head at £3,833,850, upon which 5 per cent. is £191,692.

For my own convenience—I do not know whether you desire to do it or not—it is rather interesting to relate these final figures now back to the original statement put in "R.T. 2a," "3a," "4a" and "5a." You will remember that the first folio in

these thicker volumes contains the original presentation by the railway companies of the Standard Revenue figures. This item with which I have been dealing, and which is dealt with in the table of the 8th June, 1925, now handed in, is the third item, and it is of some little interest to note the result of the examination by the Court of our originally prepared figures. If you will be good enough to look at folio 1 of "R.T. 2a"—and folio 1 is the same in the case of each of four volumes—you will see the figures there for each of the four companies, and you will note that whereas in our original presentation of the figures the London and North Eastern Railway Company's claim was for £707,724, now the finally ascertained figure is £702,698. There was an intermediate stage, you may recall, when we presented amended and revised tables; I am disregarding them and taking the standard of the figure and then giving you the final figures, because these were merely intermediate documents which have passed out of importance. The contrasting figures, therefore, are, in the case of the London and North Eastern Company's original proposal, £707,724, and now the final ascertainment is £702,698. In the case of the London, Midland and Scottish, £577,021 was originally put forward, and I will write against that the new finally ascertained figure of £569,907. The Great Western Railway Company's original figure was £291,378, and the figure now finally ascertained is £291,073. The Southern Railway Company originally put forward £191,056, and now the figure is £191,692. For the four companies the original total claim was £1,868,070, and the figure as now ascertained for the four companies is £1,855,370.

*President:* These figures which are now before us on this table give effect to those adjustments which Mr. Hurcomb suggested when he produced the report after the test for overlapping?

*Mr. Macmillan:* Yes. I was going to allude to it in connection with paragraph (b) upon which his observations have received effect. So far as paragraph (a) is concerned, you may take it that this is correctly compiled in consequence of the decisions and with the views of the Minister. There is nothing left in it so far as I know. Is that right, Mr. Hurcomb?

*Mr. Hurcomb:* Yes. I agree the figures of capital expenditure as now amended as given in the last column headed "Total," in this statement.

*Mr. Jepson:* That is after allocating the joint lines between the respective interests. I think in the original table they were put separately.

*Mr. Hurcomb:* We showed them separately.

*Mr. Jepson:* And this new figure—

*Mr. Macmillan:* There is a subsidiary table which makes that abundantly plain.

*Mr. Hurcomb:* I would like also to remind the Tribunal of the reservation I made before, that as regards the distribution of the figures between railway, omnibus and steamboat, and so forth, neither the Minister nor, as I understand it, the companies regard the allocation here shown as prejudicing any action that may be required under other sections of the Railways Act or otherwise in the compilation of accounts.

*Mr. Macmillan:* That is certainly agreed and already recorded on the notes; but there is no harm in having it once more brought to mind. I have not dealt with allocations at all; I have been taking the total figures and not the distribution figures amongst the different heads; but it is satisfactory to know, before you in the document produced this morning are figures which are accepted as accurate by the Minister, and therefore the fact of the Tribunal is merely to take 5 per cent. of those figures.

I had given you the differences, and they are rather interesting, I think, as showing on the whole how very near the railway companies were to the correct figures when they lodged their claims originally. The differences are really comparatively

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small. In the case of the London & North Eastern Railway Company it is only £5,026; in the case of the London Midland & Scottish Railway Company it is £7,114; in the case of the Great Western Railway Company it is only £905, and in the case of the Southern Railway Company it is only £264. Perhaps you may think that the very elaborate inquiries and investigations which have taken place here have not resulted in any very substantial modifications of the figures. It is quite true that these corrections and modifications will hardly reflect themselves in the charges; but, on the other hand, I think it must be a satisfaction to feel that these figures have been gone into so closely, and that on the whole the figures originally put forward so nearly approximated to those which, on a final ascertainment, have been recognised as the correct ones; and although these adjustments are so small as in the end of the day to have practically no effect, I think it is a self-satisfaction to have the figures so accurately ascertained. Therefore I think we may take it that as regards this table you now have finally ascertained figures for paragraph (a) to which we may bid a respectful and regretful farewell.

As regards the joint lines which Mr. Jepson mentioned, there is a subsidiary table which we have prepared, which is necessary to be taken along with that document, and the purpose of which is merely to show how the railway companies have allocated the capital expenditure of the "J" joint lines. As you may remember, Sir, the Minister in his figures naturally did not distribute those figures among the companies. The companies have now distributed the capital expenditure on "J" joint lines among the parent companies in conformity with this table, which in terms reflects the correct shares of each of the companies. The only column to which I might draw attention is the last column. There were certain companies outside the four groups which were interested in "J" joint lines. The figures applicable to them are, of course, eliminated from this altogether, a sum of £3,051 disappears from your consideration altogether, as it was the share of companies—the Metropolitan and Great Central Joint Committee and the Whitechapel and Bow Joint Committee—which are not within its purview at all. The remaining figure has been allocated among the companies and consequently incorporated in the first document which I handed in. This is merely a subsidiary document for the purpose of supporting the compilation of the first document.

*Mr. Jepson:* I think as regards the Metropolitan and Great Central Joint Committee, apparently the Great Central's share is brought into the revenue.

*Mr. Macmillan:* They have their own share of it and that is properly brought in. The share that falls outside is excluded, and similarly with regard to the Whitechapel and Bow Joint Committee.

*Mr. Jepson:* Quite so.

*Mr. Macmillan:* £3,559 alone comes into this first document.

*Mr. Jepson:* And these allocated figures, so far as the four groups are concerned, are embodied in the main statement?

*Mr. Macmillan:* They are. This is not a separate table; this is merely explanatory of the methods of allocation of the "J" joint lines which were given in gross by the Minister. They had to be allocated as they have now been allocated. Therefore, as I have said, we have the satisfaction this morning of giving you the completed figures for paragraph (a), of which we may now take leave.

We then pass to paragraph (b), which is the paragraph around which the greater part of the controversy has centred. As regards the capital expenditure which had to be ascertained under paragraph (b), before you considered the question of what capital had been raised or provided in respect of that expenditure, and also before you had to consider what allowance should be made in respect of capital raised or provided in respect of that expenditure, it was necessary, of course, to arrive at the capital expendi-

ture itself, and the amount of the capital expenditure, or expenditure on capital account, incurred since the 1st day of January, 1913, not included in (a) was the subject of agreement between the railway companies and the Traders' Co-ordinating Committee which was reported to the Court on the 27th April. That agreement was to the effect that the companies' figures in their Schedule "D," as amended

Schedule "D" being the schedule in which the details of this item are given, with the companies' figures in their respective Schedules "D"—were to be accepted subject to any modifications which might be necessary in consequence of the report of the Minister of Transport then in preparation; and subject, therefore, to an overhead deduction of £2,000,000 which, as you may remember, was agreed in respect of items (b) and (c) to be allocated at the option of the railway companies. So that the position was this, that the agreement between the companies and the Traders' Co-ordinating Committee was that the amended Schedule "D" figures of the four companies were to be accepted, subject to such modification as might be found to be necessary in consequence of the points to which the Minister of Transport might draw attention in his report which was then awaited.

Then these figures in Schedule "D" if, or as modified in consequence of the Minister's report were to be the subject of a further overhead deduction shared with (c). Thereafter the Minister of Transport's report was received and laid before the Tribunal and the parties. On the last occasion when the Court met I endeavoured to expound the various points to which the Minister drew attention, and I indicated to the Court the modifications which the railway companies proposed to make on their Schedule "D" (Amended) figures, subject, of course, to the Tribunal's approval in consequence of the Minister's report, and tried to give effect to the points to which he drew attention.

My learned friend, Mr. Merriman, who then appeared on behalf of the Traders' Co-ordinating Committee, rather demurred to these matters being gone into on the last occasion, on the grounds that he was not fully prepared to cross-examine upon the point and on the further ground that he had been led to believe by us that these topics would not be gone into on that occasion; but you were good enough, Sir, to leave the position on this footing, with your approval that he should have an opportunity of considering the exposition of the figures given and the evidence which Mr. Quirey gave in support of the exposition, and announce to you whether or not on such consideration he found it necessary to cross-examine. Within a day or two of our last meeting we received an intimation from Mr. Merriman's clients to the effect that on consideration they had no observations to make and did not desire to cross-examine Mr. Quirey. Therefore we may take it that the proposals made by the railway companies on the 25th May, designed to give effect to the Minister of Transport's report, are not objected to by the Traders' Co-ordinating Committee, and are therefore now before you for your consideration.

I should formally move the Tribunal to approve of the methods which the railway companies then proposed for dealing with the various points raised on the Minister of Transport's report. As you may remember, Sir, I went through each one of them in detail and explained what we proposed to do on each one of them in order to meet the Minister's views, and invited my friend, Mr. Hnrcumb, at each stage as we passed from topic to topic to express his view upon them, not from the point of view of inviting his approval, because that is a matter for the Court, but rather from the point of view of inviting him to make any observations which, from the public point of view, the Minister's point of view, he thought fit to make. You may recall that we have now on our note a complete account of that whole matter. The result is that our proposals for dealing with the Minister of Transport's points are really unopposed, and I should therefore formally move that the Court should authorise the railway companies to give effect to their proposals

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[Continued.]

in the ascertainment of their figures for paragraph (b). In anticipation of the Court being pleased to do so, we have prepared a statement which deals with Item No. 4—that is to say, paragraph (b) of Section 58 (1), and that is now handed in. (*Table handed to the Tribunal.*)

This table is headed "No. 4 (R.T.2a, 3a, 4a, 5a)", and it is also dated the 8th June, 1925. This table, Sir, gives effect to all the proposals which the railway companies made on the 25th May to meet the points on the Minister of Transport's report. So far as our position *vis-à-vis* the Traders' Co-ordinating Committee is concerned, we had agreed our Schedule "D" (amended) figures subject to giving effect to the Minister of Transport's points. This table gives effect to the methods which we propose to meet the Minister's points as I explained them last time, and we therefore reach figures to which we may in terms apply the total deduction of £2,000,000. We were still, as you may remember, awaiting the ascertainment of that figure, because the railway companies could not allocate their £2,000,000 until we had compartment (b) accurately ascertained. What we were awaiting was the Minister's comment on our Schedule "D" figures which were otherwise acceptable. On these figures we have now had the Minister's comments, and we in this table give effect to our proposals to meet all those points in the manner which I ventured to set out at our last meeting.

You will see in each compartment the figures which I mentioned last time. They are all incorporated and we get, therefore, the capital expenditure to 31st December, 1923, for the purpose of paragraph (b) of the four amalgamated companies.

The Court will, of course, always bear in mind that in paragraph (b) we have arrested our progress at 31st December, 1923, and as regards capital raised or provided after that date we shall have to have a supplementary statement; but down to the 31st December, 1923, the table now before the Court gives our amended Schedule "D" figures, with the consequential alterations necessary to meet the Minister of Transport's report.

I do not think it will be necessary to go through them all again in detail, but if you look at each compartment you will recognise the items with which I am afraid I dealt at too great a length last time. If you take the London and North Eastern Railway Company, you will see there are certain additions which I explained. The figures are figures which I set out last time, and there are certain deductions. You will notice, for example, there is a deduction in respect of the Brackenhill Light Railway and West Dunston Staiths, which we had reluctantly to forego for the reasons which I gave. The ultimate result is to bring out in the case of the London and North Eastern Railway Company a figure of £2,993,942, in their case an increase over their Schedule "D" (amended) figure, because they had omitted expenditure on works costing less than £25,000 brought into use prior to 1913 and not included in their original Schedule "D" (amended).

There is a relatively small item for the Metropolitan and Great Central Watford Extension Line; consequently the figure for the London and North Eastern Railway Company, after giving effect to the adjustments consequent upon the Minister's report, now stands at £2,993,942.

In the case of the London, Midland and Scottish Railway Company the figure is now £3,940,146; in the case of the Great Western Railway Company it is now £5,685,846; and in the case of the Southern Railway Company it is now £651,352.

The only items which it is desirable, perhaps, to say a word about are two items in the London, Midland and Scottish Railway Company's compartment and the Southern Railway Company's compartment. You will notice in the second last column on the right-hand side an item of £25,000, amount transferred from capital account at date of vesting in respect of investments. Similarly, in the case of the Southern Railway Company there is an item of £92,021 simi-

larly titled. These are the cases which I explained last time of investments which had been transferred from capital account but had not yet been realised. Attention was drawn to the matter by the Minister of Transport, and we thought it was desirable to make an end of that matter at once rather than to have it left over for consideration as and when these investments might be realised in the future. We have therefore invited you to authorise us here and now to deduct the amount of these two groups of investments, £25,000 London, Midland and Scottish Railway Company, and £92,021 Southern Railway Company, although they are not yet realised, and thus to wipe out that item from all future consideration.

We have a document which gives the details of those investments, but it merely sets out in tabular form what I have explained before. (*Document handed to Tribunal.*) These are the details of these investments. I explained them very fully last time, but in order that you may have the material before you we have had that tabular note prepared.

Mr. Jepson: This was to make an end of all those capital investments which were transferred from capital account. These figures which you put before us in the statement now do not include the capital that was transferred to the investment accounts and the investments subsequently sold, or already sold. They are dealt with by a deduction from the capital account already in the previous figures, I suppose?

Mr. Macmillan: That is so, when these figures were really before you. These are two separate items of investments transferred from capital account to general balance, I think it is, but not yet realised.

Mr. Jepson: I see. I see this, "but not yet realised." They are in this second statement, but they are not in the first.

Mr. Macmillan: Yes, I see.

Mr. Jepson: It came across my mind as to whether it was the total sum.

Mr. Macmillan: This is really the paper in aid of the first paper and to explain those two items. So that if you take the two together I think you have that quite clear.

Mr. Jepson: If you put on the Item No. 4 statement against those two items that the London Midland and Scottish Railway Company and the Southern Railway Company have not yet realised it makes them both accord.

Mr. Macmillan: Yes.

Mr. Jepson: There is one other point I have in my mind. Under the Great Western Railway Company you have a similar entry of £199,000 transferred from capital account at date of vesting in respect of investments.

Mr. Macmillan: Already realised. The distinction between the two things is dealt with. They are not realised in contrast with the realised investments. Again, it may be interesting just to cast a glance back from this presentation of our figures to where we stood originally. In the first large book of figures which we put forward in folio 1 we did not give the capital expenditure, you may remember, but claimed a percentage upon the capital expenditure, and therefore for the capital expenditure of each of the companies to compare it with the other figure you have to go to the total of Schedule "D" for each company. If you have the large volume in your hands and look at Schedule "D" where the particulars are given of the items for paragraph (b) you will find that the total figure under Schedule "D" on folio 22, London and North Eastern Railway Company, is £3,185,165. There was an intermediate amended Schedule "D" put in giving effect to alterations up to this date, which we need not now refer to.

Coming to the figure in the document which has been handed in, you find that the Schedule "D" now stands at £2,993,942. Going through the other companies' figures—if it is of interest to the Tribunal just to see what has been the result of our labours—the London, Midland and Scottish Railway Company's Schedule "D" as originally proposed contained a capital figure of £3,959,131. It now stands



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at £3,940,146. The Great Western Railway Company originally claimed under Schedule "D" capital expenditure to the extent of £5,763,180, and the figure now ascertained is £5,685,846. The Southern Railway Company in their original Schedule "D" claimed for capital expenditure amounting to £792,050. The figure contained in the table just handed in as the final ascertained figure is £651,352. The result is that for the four railway companies the sum of their capital expenditures claimed in their Schedules "D" amounted to £13,702,526.

In consequence of the observations of the Minister and various concessions and adjustments made in the course of the discussion of our Schedules "D," the result is that we put forward this morning in the table just handed in a total capital expenditure for the four railway companies to the 31st December, 1923, qualified for admission to paragraph (b) of £13,271,286. That, of course, is all subject to the overhead deduction which I will be dealing with shortly.

It may be of interest to note in passing that the result of the scrutiny of the contents of paragraph (b) as originally apprehended has been a net reduction on the original Schedules "D" for the whole four railway companies of £431,240. That represents the practical outcome of our labours in criticising and adjusting these figures with the assistance of the Minister.

These figures, of course, are still subject to your approval. They are put forward this morning accompanied by my formal motion that you should approve of the method which we have taken of dealing with the points of the Minister of Transport which I set out last time when we met, and which is given effect to in this table. But, of course, that is all provisional upon your approving of the methods which we have adopted for dealing with the Minister's points, because we have assumed, perhaps temerarily in advance, that these methods met with your approval and have shown you the result.

If you are pleased to approve of the way in which we have dealt with the Minister's points, then these four figures here will be the four figures of capital expenditure, as to which you would have to consider whether capital had been raised or provided, and then the allowance to be made in respect of capital raised or provided for such capital expenditure. Of course, you will recall that the agreement between the Companies and the Traders embodied a term that the allowance to be made should be the actual cost of raising the capital. The question of the requirement that capital had been raised or provided was also fully discussed before you last time, and you, I understand, expressed your approval of the methods which had been adopted and were prepared to decide that capital raised or provided in the methods in which this capital had been raised or provided satisfied the statutory requirement; then the agreement applies and the amount to be allowed represents the actual cost of raising that capital raised or provided to meet this expenditure, subject of course always to the deduction which will have to be made, and which I shall announce in a moment.

Therefore, this table requires still the imprimatur of your approval upon the methods which we have applied in giving effect to the Minister's report.

*President:* Have you any observations to make, Mr. Hurcomb?

*Mr. Hurcomb:* The reconciliation statement as now amended and revised, and dated yesterday, has been examined by the Ministry, and it might be convenient if I were to state very briefly the way in which the points raised in the Minister's Report have been dealt with.

*Mr. Macmillan:* It would be very convenient.

*Mr. Hurcomb:* With regard to the expenditure since the 1st January, 1913, in respect of works of less than £25,000, brought into use prior to the 1st January, 1913—

*Mr. Macmillan:* May I just interrupt for one moment? Are you dealing with the reconciliation statement? I wanted to postpone that.

*Mr. Hurcomb:* I was going to confine myself to the statement on the (b) claim.

*Mr. Macmillan:* The reconciliation statement comes a little later in my programme.

*Mr. Hurcomb:* I quite appreciate that. All companies have now included such expenditure in their claims under paragraph (b); the figures are agreed as figures by the Ministry; but the question whether such expenditure is admissible under paragraph (b) awaits the Tribunal's decision, as Mr. Macmillan has just said.

The Tribunal will observe that the London, Midland and Scottish Railway have deducted from their claim the sum of £17,326 in respect of works brought into use prior to 1913 costing over £25,000, to which attention was drawn in the Appendix to the Minister's Report.

With regard to land and property transferred from above to below the line no adjustments have been made under this head, and it is for the Tribunal to decide whether they require credit to be given in the claims for remuneration of capital, or will approve the companies' proposal to adjust the 1913 net revenue. If the Tribunal takes the view that the companies are not required to abate their claim for remuneration of capital, but accept the offer of an adjustment on grounds of equity in the net revenue of 1913, the Minister takes no exception to the way in which it is proposed to make that adjustment.

Credit has now been given for all investments transferred to the balance sheet whether realised or not, but the point as to other items transferred to the balance sheet from the capital account, horses, vehicles and leasehold property, are the main items at any rate of that kind to which reference was made by Mr. Quirey in his evidence, and that point remains. It is for the Tribunal to decide whether credit should be given now in the period when the transfer from capital account took place, or whether these items should be brought up for reconsideration on subsequent review.

These are three of the main points of principle which arose on the Minister's Report. All the points of detail to which the Minister drew attention have been adjusted on the lines indicated in the Report, and proposed on behalf of the Companies through Mr. Macmillan on the eighteenth day of the proceedings.

As regards Fishguard and Rosslare, the expenditure is now included in the Great Western Company's claim under paragraph (a), and a duplication, to which reference was made last time, of £28,000 has been adjusted in the claim under paragraph (b). I am, therefore, subject to the Tribunal's decision on the points of principle, and their acceptance of the detailed adjustments which the Companies have offered to make, in a position on behalf of the Minister to agree all the figures in this Statement as figures.

*Mr. Macmillan:* Then the next stage, Sir, is to ascertain the contents of paragraph (c).

*Mr. Locket:* Before we part from (b) when will be an appropriate time for us to consider the allowance to be made in respect of capital expenditure subsequent to the 31st December, 1923; that will have to be done before we can go into the question of charges, of course.

*Mr. Macmillan:* Yes. That matter, of course, will have to be dealt with in close proximity to the time when you are fixing the charges finally, and the nearer we can bring the two dates coincident the better, but I do not anticipate with regard to these more recent matters of expenditure of capital raised for such expenditure that there will be much difficulty. Of course, it is all very recent history, and the material will be all available. It will be a relatively small matter, but we have got to keep that account open to the nearest date to fixation that we can so



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that we shall be able on the eve of fixation to give you the necessary figures there.

*Mr. Locket:* It is not likely to be a very controversial figure; it will be a matter of record practically.

*Mr. Macmillan:* I think largely it will. I am not in a position to say just now whether any question will arise, because so far as Counsel are concerned we are not instructed on it yet, but I cannot conceive that there could be any very great difficulty over that, seeing that we have overcome very much larger difficulties and more complicated matters.

I am just trying to carry the Court with me on each of these tables and trying to keep the matter, if I may say so, in order. We have next to get the contents of paragraph (c) in order that we may next announce to you the deduction that we propose to give of £2,000,000 distributed between (b) and (c). The (b) figures will be those figures if you are good enough to approve of the method on which we proceed. The (c) figures are easily got, because in the terms of the agreement intimated on the 27th April to the Court it was agreed between the companies and the 'Traders' Co-ordinating Committee that the figures given in the railway companies' original claims in R.T.2a, R.T.3a, R.T.4a, and R.T.5a under this head should be taken as the figures less one-third; so you just take two-thirds of each of the totals under this item in the original claims. You get in that way the contents of (c), and on one-third being taken off—it was a term of the settlement that 33⅓ per cent. should be taken—in that way you get the figure for paragraph (c).

*President:* Perhaps I did not quite follow, but do you say that you are reading this one-third distributably over every item in the Schedule, or only on the total?

*Mr. Macmillan:* On the total only, and upon that matter, you will recall, you indicated that it was desirable that some evidence should be led, and we are going to do so later to-day.

*President:* It is only for the purpose of getting it clear; I quite understand now.

*Mr. Macmillan:* That is quite so, and we shall shortly give you evidence upon that matter; but for the moment I am anxious to get the figures for (b) and (c) to which we in turn apply at our discretion—because that is a term of the settlement—the overhead deduction of £2,000,000. Before I tell you about that I may just pass to the economies I think which you have just dealt with in your judgment, and that, I think, is now fixed also fortunately. I beg your pardon; I made a mistake about (c). I imported the 33⅓ into (c) but that is, of course, the economies. I am sorry I made a mistake about that for the moment. The contents of (c), of course, are not affected by the 33⅓ at all. The contents of (c) are the Railway Companies' original figures, less one-third. When you come to the proviso which you have just dealt with in your judgment that has now been finally fixed.

*President:* Assuming that there was a successful appeal against the Judgment just delivered, I take it that the whole matter would be again at large, would it not? Suppose Mr. Cripps succeeded in showing that it was only that they were additions of the standard, how would your agreement stand?

*Mr. Macmillan:* The economy settlement would be at large, but not the settlement on (b) and (c).

*President:* No; I was only dealing with the economies, because I thought you said it was an absolutely ascertained figure now.

*Mr. Macmillan:* I meant so far as the state of the law is at the moment, and of course if Mr. Cripps' clients were advised to carry the matter further and a different view were taken of the law—

*President:* It might be £800,000 or £1,000,000.

*Mr. Macmillan:* Yes, but the two settlements that were effected relating to (b) and (c) and the settlement relating to the proviso are distinct settlements which do not stand or fall together.

*President:* No.

*Mr. Macmillan:* Therefore, any challenge by Mr. Cripps' clients relating to the proviso would leave in effect the settlement under (b) and (c).

I have now, therefore, placed before you, I think, with precision the precise position of each of the five factors which go to make up the standard revenue as they stand before you just now, and the survey of them will, I think, satisfy the Court that we are now very near the completion of those figures.

Almost all the controversial matter has been removed.

Now I revert to (b) and (c), and I shall assume for the moment that I have the approval of the Tribunal to the figures for (b) and (c) as in fact put forward. I shall assume that the Tribunal agree, as indeed I think the Tribunal have agreed, that paragraph (c) should be as stated, subject to hearing the evidence, of course, in support of the settlement; but assuming that that settlement goes through, we then have to deal with the £2,000,000 point. The companies have divided up the £2,000,000 as follows: they first divide it among the four companies, and the London and North Eastern Company are to make a total deduction of £730,000, the London, Midland and Scottish Company a total deduction of £780,000, the Great Western Company £330,000, and the Southern Company £160,000; these four totalling up to £2,000,000. Under paragraph (b) the London and North Eastern Company proposes to allocate £381,256, and the balance of their £730,000, namely, £348,744, they propose to allocate to paragraph (c) but in allocating that to paragraph (c) the method, you remember, is to take 5 per cent. upon it, so that they will deduct 5 per cent. upon £348,744 from the paragraph (c) figure. The London, Midland and Scottish Company will allocate to (b) a capital sum of £111,360, and will deduct 5 per cent. of £668,640 from (c). The Great Western Company will apply the whole of their deduction to (c), and will accordingly deduct from their figure in (c) 5 per cent. upon £330,000. The Southern Company will deduct £47,496 from (b) and will deduct from (c) 5 per cent. on the balance of their share, namely, £112,504.

Now we have a document this morning which shows these figures. This document is entitled: "Item No. 5 R.T.2a, R.T.3a, R.T.4a, R.T.5a," and is dated the 8th June, 1925. (*Document handed in; see Appendix.*) Looking at the first compartment you will see the first thing to be done is to take the figure for each company under this item in the original R.T.2a, R.T.3a, R.T.4a and R.T.5a, then to deduct one-third, being the agreed deduction, and then to deduct a further sum which represents 5 per cent. upon the proportion of the share of £2,000,000, which each company has allocated to (c). There you will recognise in £17,437 5 per cent. upon £348,744, being that proportion of the £730,000 of the London and North Eastern Company's share of the £2,000,000, which they allocated to (c); similarly, the £33,432 London, Midland and Scottish Company; £16,500 the Great Western Company; and £5,026 the Southern Company. In each case it represents 5 per cent. on that Company's proportion of its share of the £2,000,000, deductions being made accordingly, and you reach the allowance as amended in the case of each of those companies for paragraph (c).

The details of the further deduction are given in the lower compartment of the table. You see there the distribution of the £2,000,000 into the four sums I mentioned a moment ago. You see next the proportions which have, by three of the Companies, been carried to the credit of (b), and you see the result, being the balance taken to paragraph (c), and then 5 per cent. upon it, gives you the figure deducted in the upper compartment of the table. That shows you how the Companies have dealt with their overhead deduction of £2,000,000, which was entirely at their own disposal, and at their own discretion. We will be able, if this again is approved of course, to complete this total of items by making the deductions which you have made from the capital sums. I intimated to you when I handed this table that it was all

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still subject to the treatment of the £2,000,000. In order to get your final figure for paragraph (b) you would accordingly have to take off in the case of three of the companies the amounts they have allocated under paragraph (b).

*Mr. Jepson:* This allocation by these three companies of a portion of the £2,000,000 under (b) seems to be in respect of loss of steamboats.

*Mr. Macmillan:* I am just going to explain it, if you please. I desire now to make a short explanation as to the reasons which have actuated the railway companies in distributing as they have done their £2,000,000, and I preface my explanation by saying that they had an entirely free hand as to how they were to do it. We had in view in making these three deductions in the case of those three companies of those sums the criticisms of my learned friend Mr. Cripps on behalf of the London County Council. Mr. Cripps for the London County Council told us that he had three points, as to which he was concerned, and at page 410 these are summarised at the foot of the left-hand column as follows: "Now, those are the only three points which I have to put before you: Firstly, as regards adequate remuneration on investments in other companies which are not J. Joint Lines, and which are not one of the amalgamated companies themselves; secondly, as regards the 2½ million pounds received from steamboats; and, thirdly, as regards shares which have become shares in the amalgamated undertaking itself, and which have been removed from capital to open account." As regards these three points to which Mr. Cripps drew attention, the first and the third are already disposed of in the account as amended. The second point with regard to the steamboats I propose to say something upon at this stage. Now, would you be good enough just to take along with that Mr. Cripps' further observation on page 421, about three-quarters of the way down the left-hand column. There Mr. Cripps, after referring to the regret I had expressed that he had not seen the terms of settlement earlier, goes on to say: "I am instructed to say that, provided the Tribunal is satisfied that the three questions, which were raised by my clients at the last sitting, and which then Mr. Clansou, on behalf of the railway companies, said he was going to bring evidence to meet, have been dealt with in the settlement, then my clients do not wish to say anything further, except this only, that of course they do not deem themselves to be bound by any of the terms of this agreement not to reopen matters in the future or anything of that sort. (Mr. Macmillan): That is not suggested." Therefore, these three matters were the matters with which Mr. Cripps was specially concerned.

I think it might be useful if on this topic of steamboats I just said a word of explanation of the method in which we have gone about the business. The facts are very simple. Some of the companies' steamers were lost during the War. These steamers appear in the capital accounts of the companies which own them at their original cost price. Compensation was received from the Government in respect of those steamers lost by enemy action. The Companies concerned have replaced some of the steamers by new steamers, but others have not been replaced. As regards the steamers which have not been replaced, there appears to be no room for any question because the original cost of such steamers lost and not replaced was eliminated from the capital account under (b), and therefore there is nothing representing those steamers lost and not replaced. So far as the compensation for those steamers received from the Government is concerned, it stands in the accounts as reserve, and the revenue earned by it there rounds to the benefit of the trader in the shape of other sources of revenue. There is no capital charge for a steamer lost and not replaced, because the item which represented that steamer has been eliminated from the capital accounts; it does not figure in our mean sum at all. Therefore, as regards steamers lost

but not replaced, I conceive that no question can arise.

The only point where some legitimate question might arise is in the case of steamers lost but replaced, and of course the replacement, where replacement has taken place, has naturally been at a much higher cost than the original cost. Where the steamer has been replaced, the cost of replacing it has been carried to capital account, less in the case of the London, Midland and Scottish, some part of the Government compensation. I am not going into the detail, because there are certain niceties about these matters of adjustment which are not really germane to the general consideration; but generally you may take it that the cost of replacing, that is to say, the cost of building a new ship to take the place of a ship that was lost, has been carried to capital account. That is, of course, in accordance with the ordinary practice of shipping companies; it is the ordinary accountancy practice. The original cost of the replaced vessels has been already eliminated, and in the case of the London, Midland and Scottish, not only the original cost, that is to say, of the steamer that was lost, but also something in addition, I suppose something to do with their depreciation fund or for some other reason, was also taken out of capital account when the vessel was lost and compensation received.

In order to eliminate from (b) sums representing the increased cost of the replaced boats, the Companies proposed to assume that the replacing vessels cost twice as much as the vessels replaced originally cost; that is to say, supposing a vessel, if I may put a figure, cost £100,000 pre-war, and was lost; £100,000 being her original cost, the book value which stood debited to capital account was eliminated. When a new vessel is built to take the place of that vessel which was lost, assuming that it cost £200,000, £100,000 of that £200,000 was perfectly properly repaid as a debit to capital account, because we have eliminated the first £100,000, and therefore if we are putting a steamer back again, there is an asset representing that, and the £100,000 would be a mere repetition of the previous entry, but inasmuch as the vessel has notionally cost twice as much as the original vessel cost, we think it proper, in order that there should not appear in the capital account the increased cost of replacing at the higher price the vessel that was lost, to deduct the original cost over again. In short, we propose to deduct in the case I figure another £100,000. The net result of that would be to leave the capital position unaffected, because we would have a new vessel which had cost us £200,000, and the amount of the debit against her would be simply the £100,000, which was the original cost of the vessel that was lost.

That is the method in which we have approached this matter, and it seems a pretty fair overhead way of doing so. Of course, the vessels, in so far as they were replaced, were replaced at different times. The increased cost over pre-war cost varied; it is probably less than 100 per cent. at the present moment; it was probably more than 100 per cent. in 1921; and therefore you have to look at the thing rather in a large way. We propose for the purpose of recognising the desirability of eliminating from capital account on broad lines the amount of the increased cost of the replacing vessel just to take out twice the cost of the original vessel. I do not put that forward as in any way a precise method of dealing with the matter, but I think it will commend itself as a fair method overhead of dealing with the matter.

The result is this, that having £2,000,000, which we had to deduct from our figures for paragraph (b) and our figures for paragraph (c), we have chosen to exercise our discretion in the case of the three companies affected by making deductions from (b) which are arrived at upon that principle, and which are designed to meet the point taken by Mr. Cripps that the additional cost of replacement ought to be

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deducted from (b), and that he objects to (b) containing the increased cost of replacement. That is the nearest way in which we can get at it, and represents a fair average result. The consequence is that we are taking from (b) a total of £540,112, being the total of those figures which is arrived at on that method, and which is intended to be the reward which Mr. Cripps craves for what he was himself pleased to call his pertinacity, but what we only recognise as zeal.

That is the proposal we make, and that is how the sum of £540,000 odd has been arrived at. We think that that represents a fair elimination of the items which gave anxiety to Mr. Cripps.

*Mr. Jepson:* That is only for the purposes of this statement (b); it does not interfere in the capital account of the company, I suppose according to their books?

*Mr. Macmillan:* No.

*Mr. Jepson:* Or is it considered policy to adopt the same principle as regards the capital of the company and write off the difference out of depreciation?

*Mr. Macmillan:* If I may say so, we are not really affecting the company's books or the company's policy even at all. It is merely a method of meeting a criticism which had some reasonable foundation for the purpose of the ascertainment of the standard revenue.

*Mr. Jepson:* And I do not know that it concerns the Tribunal how the companies deal with it in the capital account in their books.

*Mr. Macmillan:* I think not, and I should not like for a moment to say that the company was committed to any policy about this matter at all. It is merely a recognition of a criticism and it is an effort to meet a criticism which has been made, and we venture to think a generous and adequate method of meeting that criticism. That is how we propose to meet the second of Mr. Cripps' points, the first and third having been already met.

*Mr. Locket:* You have met it to the extent of £540,000, but, if I recollect rightly, Mr. Cripps pointed out that the sum in question amounted to £2,500,000.

*Mr. Macmillan:* His figure varied at different times; it was at one time £2,500,000, and at another time £2,000,000, and I do not quite know what his actual figure is.

*Mr. Stafford Cripps:* I do not think it varied unless it is a misprint; it was the £2,500,000 figure which appeared in the Colwyn Report. The figure I gave quite clearly at page 409; there was a criticism of this £2,500,000, and it was simply the figure I took out of that Report as being the sum which the Admiralty paid for these steamers.

*Mr. Macmillan:* You are perfectly right that that was the sum there, but you are for the moment overlooking the circumstance that a number of these vessels have not been replaced. You have to take first from the £2,500,000 the vessels not replaced, and the compensatory money is in the coffers of the company and is yielding revenue which comes in under other sources of revenue. We have to discriminate between vessels replaced and not replaced.

*Mr. Locket:* Your suggestion is that this £540,000 represents the amount of the £2,500,000 which is not otherwise accounted for?

*Mr. Macmillan:* It is not precisely.

*Mr. Locket:* Approximately.

*Mr. Macmillan:* It is intended to represent the increased cost of replacing vessels, and that is, I think I may call it, the operating point of the criticism.

*Mr. Jepson:* You could not tell us how much of the £2,000,000 mentioned by Mr. Cripps in respect of vessels which were lost was included in the claim originally?—I quite understand that the £540,000 represents the increased cost of the vessels that were included in the claim as having been replaced, but would it be a half; would it be £1,000,000?

*Mr. Stafford Cripps:* May I just make my position clear; I want to assist my learned friend. This was

simply a figure, as the Tribunal will remember, that I got out of the Colwyn Report. I cross-examined, I think it was Mr. Quirey, about it exactly a year ago and asked then that certain details should be supplied. I again cross-examined him on the 23rd March and expressed some disappointment when he said he knew nothing about it; still he had not made enquiries and knew nothing about what had happened. I am still at this moment waiting for details of what has happened to the £2,500,000; that is my position. It may be that the £540,000 is the proper figure, or it may not be so, but at present the Tribunal have no details whatsoever of what happened to this £2,500,000—what steamboats were purchased, whether it was put to reserve, or how it was dealt with; that I am still waiting for.

*Mr. Locket:* That is what I had in my mind when I put the question.

*Mr. Stafford Cripps:* I am much obliged to you, Sir.

*Mr. Macmillan:* What I am proposing to do, and it may clear up matters, is this: after I have gone through all this process of explanation I was going to call Mr. Quirey again merely to prove all those tables and to say that they give effect to all the decisions, and so on, and if there is any point arising he could then explain it to the best of his ability and an opportunity will be offered in that way; but I thought it would be better to bring forward all these tables and prove that they give effect to the decisions. At the moment I am only stating them as counsel, and I think it would be proper that they should be formally proved before you. At that stage I hope that any explanations will be given that are desired, but for the moment, if I may do so, I was wanting to explain how we have set about the matter. Whether we are right or not is open to comment, but I wanted to explain how we had set about it and what our endeavour was to achieve.

*Mr. Stafford Cripps:* I think it is fair that I should tell my learned friend that I do not admit it is at all proper to take this figure, whatever it may be, out of the £2,000,000.

*Mr. Macmillan:* I was just going to deal with that.

*Mr. Stafford Cripps:* I am sure you appreciated that.

*Mr. Macmillan:* You will be surprised to find how alive I am to your point. My very next note is: "Understand Mr. Cripps is to contend that these sums should first be deducted from (b) and then that the £2,000,000 should be taken off," so I am going to do you no injustice.

The short answer to Mr. Cripps' contention which he proposes is that it would be entirely contrary to the settlement effected between the Traders and the railway companies. Of course Mr. Cripps is not bound by that settlement in any way whatever; he is perfectly entitled to say that he was not a party to it, and he does not approve of it, but he desires to proceed independently of either of the parties and to plough his own furrow. What particular harvest he will reap from that furrow I do not know, but at any rate he is entitled to plough his lonely furrow if he wishes, but for the moment you must, if I may respectfully say so, bear in mind what the settlement was. The settlement was perfectly distinct as between the Traders and the railway companies, and it was this: that the companies' figures in their respective Schedules D as amended at that time were to be accepted as the figures for paragraph (b) subject only to giving effect to any point which the Minister of Transport might raise. The Minister of Transport raised a series of points; those points have all been given effect to; and the resulting figure therefore is the figure, so far as at any rate I am concerned with the Traders, from which the deduction falls to be made. Mr. Cripps says: "Although I am not a party to your settlement, and although I am not a party to this £2,000,000 deduction, I want the £2,000,000 deduction to be made after you have given me my point about steamboats, whatever the qualification of it, whether it is £540,000, or what-



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[Continued.]

over it may be. I want you to give effect to my point and then deduct the settlement figure of £2,000,000" which settlement figure of £2,000,000 was agreed upon a different basis altogether. You cannot both have your cake and eat it. So far as he is concerned he is perfectly entitled to say: "I will not have in (b) any figure in respect of those items I object to." My answer to him, perfectly polite I hope but perfectly firm, is: "Well, that item is not in (b)," and he is not therefore concerned, because his point has been achieved. I say it is true in relation to the Traders, after much discussion of many topics including this very topic of steamboats, which was mooted in the course of the discussion, it was agreed that for the purpose of a complete settlement we should take our Schedule D figures modified in one way only, modified, that is to say, if and so far as it was necessary to modify them in consequence of points taken by the Minister of Transport. The moment those points were taken by the Minister and given effect to there emerged the figure to which our £2,000,000 in settlement applies, and we would be entirely upset in our whole settlement if it was to be said that you are not only to give effect to the Minister of Transport's points but also to give effect to Mr. Cripps' points and then deduct the £2,000,000. That was not the settlement arrived at with us. Again I say, and I hope quite fairly, that Mr. Cripps is not bound by that settlement, but it seems an odd thing to pray in aid of a settlement arrived at in one set of conditions and then say: "You must let me apply that settlement to a different figure from that figure which you have reached in another set of conditions"; that is an attempt to have the best of both worlds.

*Mr. Stafford Cripps:* May I assure my learned friend that that is not the attitude we take up? All my clients are anxious to know is that that actual figure for steamboats was taken into consideration in the settlement by both parties and that the Co-ordinating Committee knew quite well that there was an allowance of at least £540,000 which had to be made on (b) with regard to steamboats.

*Mr. Macmillan:* Of course, this is one of the matters on which you will have evidence.

*President:* I think Mr. Cripps put it very clearly on the last occasion; I have been reading what you said, and that is really what you mean.

*Mr. Stafford Cripps:* Yes.

*Mr. Macmillan:* I am much obliged to my learned friend; we shall bring evidence to show that among the controversial topics which were alluded to at the settlement, and of course there were many, as you can imagine, which were discussed on one side of the table and the other, was the very obvious subject of the steamboats, which had been very prominently brought before us by Mr. Cripps and others. Then the settlement that was come to was this: there are a lot of topics, and, of course, there is the topic of enhancement. The topic of enhancement was naturally one of large embarrassment to the traders because the burden was on them to prove that particular expenditure had not enhanced the value of the undertaking, and they said: "Rather than go into all the detail on that and all these other items will you give us an overhead lump sum deduction from your Schedule D figures if and as they emerge from the scrutiny of the Ministry of Transport?" There is where we part company, and it was on that basis that we agreed to the £2,000,000. Therefore my suggestion to Mr. Cripps would be this, that after he has heard the evidence which we propose to adduce I think he will be satisfied that at least this question of steamboats was not overlooked when the settlement was effected and that the settlement was one for a deduction of £2,000,000 from (b) and (c) after that point had been fully envisaged as one of the controversial points proper to be brought into a general settlement for the very reason that it was controversial.

*President:* It was Mr. Cripps' particular point, if I recollect aright; I mean he did lay stress upon that.

*Mr. Macmillan:* He did.

*President:* And he is entitled to ask now that it should be considered in the negotiations.

*Mr. Macmillan:* Surely.

*President:* I associate the point with him more particularly than any other body.

*Mr. Macmillan:* Yes, but may I just make this observation, while we are adopting in deference to that view the proposed deduction of £540,000, that is made up, if I may say so, really by way of concession, because it is a question whether anything should be deducted at all. You will appreciate that it is quite a good method of book-keeping, and a proper method of book-keeping, and I am advised is the method that is adopted in shipping companies of debiting to capital account the actual cost of their replaced vessels; you write out the old vessel and write in the new vessel. Any business man would appreciate that that is quite a good and proper way of dealing with the matter, and we should therefore have a very strong case to put forward for including in our capital account the whole of the replaced cost, just as I say, a one-ship company, a very ordinary type of company, has for its capital the amount it costs to build the ship. If the ship is lost they have to build a new ship; the new ship costs twice as much as the old ship which was lost; and they apply towards the payment of the new ship the insurance money that they raise, but their capital is doubled; they have to raise additional capital. Therefore, in the ordinary commercial world we would have had an ample justification for arguing with Mr. Cripps that our original method of dealing with the matter was perfectly correct, that is to say, of debiting to capital the whole cost of the replacing of the vessel, because that was capital outlay represented by an asset of that value at the present moment. But rather than go into the debatable points that arise upon that—because I am far from recognising that there are in railway accounting debatable points upon it—we said we would prefer as we had £2,000,000 in hand which we were bound to deduct that we would give recognition to this steamboat point specifically in our allocation, and in that way hope to satisfy the criticism that paragraph (b) should not contain increased cost of replacement. There is the whole story.

*Mr. Jepson:* I suppose from what Mr. Cripps said just now, if the railway companies had said: "We will satisfy him by the evidence that we will lead directly that this question of the steamboat business is one of the questions which was considered when the £2,000,000 deduction was arrived at," and if the railway companies had said: "Very well, we will take £1,000,000 off" or "We will take £200,000 off (b) and the remainder off (c)", Mr. Cripps would have been satisfied.

*Mr. Macmillan:* If it had been done in that way, I take it.

*Mr. Jepson:* Yes, because he said just now: "If you can satisfy me that in arriving at the £2,000,000 this question of the steamboats was one of the important points taken into consideration I am satisfied."

*Mr. Macmillan:* It would be our duty to endeavour to satisfy him.

*Mr. Jepson:* It was not therefore necessary to earmark the £540,000 as a deduction from (b) in respect of these steamers which had been replaced at very much more than their original capital cost.

*Mr. Macmillan:* That is quite right, but I thought it would be rather satisfactory to put it in that form so as to put it beyond doubt. I quite agree we could have allocated this amount at our own option *sans façon*—without any description at all—simply saying: "That is how we propose to do it." But we have chosen to do it in this way, perhaps you may say hypersensitively, in order that we may make it abun-

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[Continued.]

dantly plain that in (b) there will not be any sum which might be cavilled at that is being a debatable ingredient, because it represented the increased cost of replacement of a lost vessel. We have, therefore, wanted to make it plain, and I think it is the more candid way to go about it by simply saying that that is what we propose to do, and we have taken those sums and dealt with them in that way so as to make it clear that we have given recognition to that point, but we do say that that is to be done as part of our £2,000,000 deduction and that you are not, first of all, to take this sum from the content and then to take (b) as so diminished and deduct £2,000,000 from the paragraph then arrived at. I understand I have done my learned friend, I am afraid, an injustice in suggesting that he put the point so high as that. It is not put so high as that. No doubt, in consequence of what he has already put before you, he desires to be assured that this point is not overlooked when the £2,000,000 is arrived at, and that it is one of the ingredients in the overhead settlement and it will be our duty to try and re-assure him.

*Mr. Jepson:* There is no attempt on behalf of the railway companies or by agreement with the Co-ordinating Committee to allocate the remainder of the £22,000,000 amongst other items in the claim, and adversely that occurs has not been adopted.

*Mr. Macmillan:* Adversely. It would have brought about some difficulty which the settlement was designed to avoid; it would involve exactly the same scrutiny.

*Mr. F. G. Thomas:* For the Co-ordinating Committee, of course we take no responsibility for the allocation. Under our arrangement we made certain general criticisms, and as a result of that a lump sum was agreed, and it was left that the railway companies should allocate it in the way which they considered right from their point of view, for which we take no responsibility.

*Mr. Macmillan:* Perfectly accurate. That was entirely our pigeon, if I may say so.

Then, Sir, the position we have arrived at is this: we have to invite this morning your approval of the method in which we have disposed of the Minister of Transport's Report in view of the fact that the traders have intimated that they do not desire to cross-examine upon that matter. We have produced the revised totals which give effect in anticipation of such a decision to the new content of paragraph (b); we have also put in a table completing paragraph (a), and you are in possession now of (b) and (c). You have heard the railway companies' announcement of the method in which they propose to deal with the £2,000,000 overhead deduction, and although that matter was entirely in our discretion, as Mr. Thomas has pointed out, indeed it was a term of the settlement that it should be in our discretion whether we should invite you to accept at our hands that method of allocation.

Then the last stage is the production by us of a new reconciliation statement. Assuming that the method of ascertaining the £2,000,000 is approved, that is to say, that the deduction of £540,000 odd from (b) is to receive effect, which for the moment I am treating as if it were provisional, but assuming that it was to receive effect, we have available for you a new No. 4 table which will show the actual figure after giving effect to the deduction. I have that here, but of course that depends upon the Tribunal being satisfied and Mr. Cripps being satisfied of the method in which the steamboats have been dealt with, but there is available to you, to save trouble and calculation, a final settlement statement of the con-

tents of paragraph (b), after giving effect to our method of dealing with the £2,000,000, and that can be handed in if necessary at the close of the discussion.

There is one other paper which I have to hand in which is entitled "J.Q.4 (amended and revised)"; it is the last stage of the reconciliation statement. (Document handed in; see Appendix.)

You will recollect that we promised you a final revise of the reconciliation statement which is to be found at page 400 of the proceedings. Mr. Quirey has carried on his task of reconciliation and this gives effect to the latest stage of the whole matter, and is, I think, the final reconciliation statement; he will speak to it and explain it if necessary.

Then it only remains to remind you that on the 27th April of this year at page 426 of the proceedings when the settlement, if I may call it the £2,000,000 settlement, was arrived at with the traders you were placed to say this in the second column; "Before passing quite away from (c)—Such allowance as appears to the Rates Tribunal to be reasonable in respect of Capital Expenditure (not being less than twenty-five thousand pounds in the case of any work and not being Capital Expenditure included in paragraph (a) on works which enhance the value of the undertaking"—I have suggested that you two should produce joint evidence to show that you have investigated this matter and tender evidence that there is in the figures the value of X pounds which enhances the value of the undertaking. (Mr. Macmillan.)

When we have completed the process of allocation I was going to call a witness who would tell us how the company has chosen to use its right to election under the method—how they have done that, and how it is worked out in figures, and I propose to ask him whether the figures or view have been arrived at after full and careful survey of all the particulars to which attention is directed under the statute, so that assurance can be given to the Tribunal that nothing has been overlooked, either by the railways in putting forward their case, or by the traders scrutinising that as to all its details. That is the assurance I propose to give at some time through the mouth of a responsible railway representative." And we have reached the stage to-day when we shall do that. Therefore, with those opening remarks, I propose to do two things, if you approve. First, to ask Mr. Quirey, quite shortly, to prove the tables that he has put in; that is, more or less formally prove that they comply with the decisions of the Tribunal and with the concessions of the railway companies; then to put in his Reconciliation Statement, and he will be prepared to give explanations upon any points upon which explanation is desired.

Then I will give evidence from one of the negotiators on the railway side who will tell you how the settlement was generally effected and what was in the minds of the persons effecting the settlement. Then I will bring more specific evidence from each company in justification of the figure; so that you may rest assured, and the general public may rest assured, that the figure which is now before you for paragraph (c) is amply justified on the facts, having regard to the point about enhancement as well as to the point of quantum; and in that way to satisfy you from the point of view of each of the four companies. When I have done that and obtained the view of the Tribunal upon each of those sides we shall, I think, have very nearly reached the conclusion of our task on the Standard Revenue.

With the assistance of my friends I will now ask Mr. Quirey to give his evidence.

(Mr. JOHN QUIREY, re-called; further examined by Mr. MACMILLAN.)

5993. I think that since the Tribunal last met you have been engaged in compiling certain tables designed to give effect to the concessions which have been made by the railway companies in the course of the proceedings, and to the decisions of the Tribunal as already announced, and in certain cases as anticipated?—That is so.

5994. Taking, first of all, the document which I handed in first thing this morning—Item 3, dated 8th June, 1925—does that show for each railway company the capital expenditure as now finally ascertained for the purposes of paragraph (a) of Section 58 (1) of the Act of 1921?—Yes.

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Mr. JOHN QUIREY.

[Continued.]

5905. Have you in that table given effect to the concessions made by the companies as approved by the Tribunal?—That is so.

5906. I think the stages of the matter were that, first of all, there was the original Schedule C in R.T. 2a, 3a, 4a, and 5a; then there was an intermediate stage giving effect to certain adjustments, with which we are not now concerned as it is past history; and the final stage is represented in the table handed in this morning?—Yes.

5907. Are those figures accurately calculated?—Yes.

5908. Subsidiary to that table did you also prepare—and has there also been put before the Court this morning—a document showing the allocation between the various companies of the capital expenditure on the "J" Joint Lines?—That is so. The Ministry's figures were in total, and we show on this document the figures which appear in the companies' claims in respect of shares of ownership of the Joint Lines.

5909. And inasmuch as two outside companies—that is, companies not now in the amalgamated companies—were concerned in two of those undertakings, have you eliminated a sum of £3,051, being the outside companies' share?—Yes.

6000. Is the balance of the figure in the Minister's accounts carried into, and is it represented in, the total figures in the table Item No. 3?—Yes.

6001. It is not a question of duplication, it is merely an explanation of how the "J" Joint Lines figures have been dealt with?—It is to enable the Tribunal to trace the items into the companies' claims from the Minister's certificate.

6002. Then did you next prepare a statement relating to Item No. 4, also dated 8th June, 1925?—Yes.

6003. And in your view give effect to all the proposals of the railway companies to meet the points raised by the Minister of Transport in the Report which he made under the reference from the Tribunal?—Yes; including the two additions for investments transferred to the balance sheets and not realised.

6004. That is, the two items of £25,000 in the case of the London, Midland and Scottish, and £92,021 in the case of the Southern Railway?—Yes.

6005. Are the figures given for each company, of capital expenditure to 31st December, 1923, as now amended, accurate figures after giving effect to the railway companies' proposals to meet the Minister's points?—Yes.

6006. And subject to the Tribunal approving of the method in which these points have been met?—That is so.

6007. Then you have prepared also the statement handed in this morning showing the details of the investments of the London Midland and Scottish Railway Company for £25,000 and the Southern Railway Company for £92,021?—Yes.

6008. That is really a table supplementary to the last-mentioned table?—Yes, it is the document asked for by Mr. Jepson at the last meeting.

6009. An explanatory table?—Yes.

6010. Then have you prepared a table headed, "Item No. 5, 8th June, 1925," in which you show the method upon which the railway companies have dealt with the £2,000,000?—Yes.

6011. That shows, I think, that in the lower compartment of the table the £2,000,000 has been distributed amongst the four companies as there shown:—£730,000 to the London and North Eastern; £780,000 to the London, Midland and Scottish; £330,000 to the Great Western; and £160,000 to the Southern?—Yes, those are the agreed allocations.

6012. Agreed amongst the companies?—Yes.

6013. That is a domestic concern of yours?—Yes; quite so.

6014. Then have you also shown the amount which is proposed in the case of three of the companies to be

deducted from the paragraph (b) figure?—Yes, in respect of steamships.

6015. And do you show in the upper compartment the deduction from paragraph (c) of 5 per cent. upon balances?—Yes.

6016. And then, assuming that that is approved, have you prepared a new table—Item No. 4, which I will now hand in—with effect given to the £2,000,000 deduction?—Yes, that portion of the £2,000,000 deduction which we have applied to (b).

6017. Therefore it will affect only three of the companies?—Yes.

6018. The Great Western remains unaffected?—That is so.

6019. If this method of dealing with the £2,000,000 is accepted, then the result is shown in this additional table now handed in?—Yes.

6020. Which is a table relating to Item No. 4—that is to say, to paragraph (b)—after giving effect to your allocation of the £2,000,000?—Yes.

6021. I see that in the case of each compartment you put in steamboats lost and replaced?—Yes.

6022. And there is an item for that in the London and North Eastern, the London Midland and Scottish, and the Southern railways?—Yes; in each case a deduction from the claim.

6023. Finally, did you revise your periodical Reconciliation Statement and bring it down to date in "J.Q.4 (Amended and Revised)"?—Yes, giving effect to all the adjustments that have been made in the (a) and (b) claims.

6024. That is a new edition of the Reconciliation Statement printed on page 400 of the proceedings?—Yes, the revised copy of that.

6025. And brought down to date?—Yes.

6026. I do not think it is necessary, is it, to give any explanation of it? It is merely bringing the whole thing to focus?—I do not think it is necessary to make any explanation of it. All these have been given effect to, and the explanation of the differences between the claims.

6027. I am not going to examine you about the negotiations which led up to the settlement on the £2,000,000 basis, because that is not within your province; Mr. Boothroyd will speak about that later; but I do wish to have from you some short evidence relating to these new figures being the proportions of the £2,000,000 allocated by three of the companies to paragraph (b) under the heading of "Amount allocated to claim under 53 (1) (b) in respect of steamboats lost during Government control period and since replaced." Let us see how that stands. Prior to the war, when the company ordered a vessel and the vessel was constructed and paid for, would there appear a debit to capital account of the constructional cost of the vessel?—If it were a new and additional steamer.

6028. Yes. I want to get it in its simplest form. Supposing you were building a new vessel altogether, you would naturally debit capital with the cost of that vessel?—Yes.

6029. At the time the war broke out had the companies a number of vessels and did the original cost of each of those vessels appear as a debit to capital account?—There was in capital account a charge in respect of steamboats in respect of the several companies.

6030. There was in capital a sum representing each of the vessels which each of the companies had?—Yes.

6031. A number of vessels were lost during the war, were they not, by enemy action?—Yes.

6032. And did the Government pay compensation money to the companies in respect of those vessels lost?—Yes, under the arrangements with the Government.

6033. There was a special formula under which it was done?—There was a special agreement.

6034. When a vessel was lost, that was done with the capital account entry representing that vessel?—As a general rule, the amount would be written out of capital account; the amount credited to



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Mr. JOHN QUIREY.

[Continued.]

capital and charged first of all to the Depreciation Fund for so much as was in the fund in respect of the ship, and for the balance of the cost to the Government Compensation Account.

6035. But was the result that the item in capital account, representing that lost vessel, disappeared from capital account?—Yes.

6036. The capital account, therefore, had no longer an item representing that lost vessel?—No.

6037. And so far as compensation was received—I can understand there were complications about Depreciation Fund, and so on—but so far as Government compensation was received, that would be carried to Reserve Account, I suppose?—To the Renewal Fund.

6038. And, therefore, until such time as the vessel was replaced—if it ever was replaced—it would yield income, I suppose, which would fall into other sources of revenue?—Yes, the amount would form part of the floating balances of the company and earn interest.

6039. Then take the case of a vessel replacing a vessel that was lost. I suppose in some cases the companies had either to purchase or to build new vessels to take the place of vessels lost?—Yes.

6040. I understand it is not possible to say with regard to each particular vessel that it is an exact replacement of the preceding vessel?—That it so.

6041. There has been some changes of policy, and so on, or new ideas, in connection with the traffic?—Yes.

6042. But when a new vessel was brought, or ordered, how did you deal with the cost of that new vessel from the point of view of capital account?—The practices vary. The old vessel having been written out of capital account, in some instances the new vessel was charged wholly to capital account. In other cases—the London and North Western for example—the old ship was written out of capital account and the new ship was charged to capital less the balance of Government compensation which we had in hand. In the case of the Lancashire and Yorkshire a somewhat similar practice obtained.

6043. But evidently there was some variation amongst the companies, when there would re-appear in the capital account an item representing the replaced vessel?—Yes.

6044. A new ship which replaced a ship that had been lost?—Yes.

6045. The lost ship's item in capital account had been wiped out?—Yes.

6046. A new vessel is created to replace that vessel and her cost appears in the capital account when she comes into being, subject to certain variations of practice as to the precise ascertainment of the amount debited to capital, as you have said?—That is so.

6047. I do not know whether you can give this figure. To what extent has replacement of lost vessels taken place—to what extent has Government compensation money had to be drawn upon?—I think I can give you those figures; I have a note of some.

6048. It would be satisfactory if we could get as near as we can on this, for the purpose of satisfying both the public and Mr. Cripps?—Shall I give the whole facts?

6049. Unless the Tribunal want it—there is a great deal of complication about the Depreciation Fund, and so on—I doubt whether it would be profitable. If you will give the result, subject to your willingness to make any detailed explanation that may be necessary, I think that will suffice. What is the overhead result, in round figures?—In respect of vessels which were lost or sold to the Government and have since been replaced, the amount in the capital account was £850,074.

6050. Is that for the four companies?—Yes.

6051. Mr. Jepson: That is the original cost?—Yes.

6052. As it stood in the capital account prior to the war?—That is so. The compensation paid by the Government in respect of those vessels was £1,299,292; but the account is not closed. In the case of the London and North Eastern there are disputes with regard to the amount paid in respect of six

vessels, I believe; and with the London Midland and Scottish there are disputes with regard to three vessels. The amount in dispute is about £200,000. Then the amount that has been applied for replacing vessels has been in the total £1,071,949, of which £458,775 came from the company's Renewal Fund and £613,174 from the Government compensation. What is proposed with regard to this matter is that the replacement cost shall be taken at double the original cost, and that there shall be added to the amount already applied to replacement a sum of £540,112.

6053. Is that really designed to bring about a deduction from paragraph (b) of the balance of the sum necessary to eliminate from (b) the increased cost of the replacing boats?—That is the object of it.

6054. Does that figure fairly reflect such increased cost?—So far as we can judge. It is an estimate, as you explained. Some of the boats were built at a time when prices were very high, and some have been built in later years when prices had fallen.

6055. But is the assumption at the bottom of this proposal that a vessel cost twice as much to replace as she cost originally to build?—Yes, that is the assumption.

6056. And you think that, having regard to the many variations of price and construction of vessels during the period covered by the construction of the replacing vessels, that gives a very fair overhead reflection of the additional cost of the replacing vessels as compared with the cost of the vessels they replaced?—After consideration, that is our view.

6057. Accordingly you have advised that that figure should be the figure deducted from (b) under the designation under which it appears in your table?—Yes, as part of the £2,000,000.

6058. Mr. Jepson: Roughly, what does that bring the figure to now which stands for the claim under (b)? You told us it was £850,000 originally which was written off. If you take the double as a fair estimate for the cost of replacing, that is about £1,700,000; and then you write off from that, do you, the £540,000; and does that leave it in the claim at about £1,200,000 for the replaced vessels? Or have you brought it down to pretty well what it stood at in the capital account pre-war?—That would be the effect, practically.

6059. It is only for the purpose of this claim under (b) that I am asking the question. It is nothing to do with your capital account as you keep it in the books of the company. As I understood you, you first of all wrote off the £850,000 representing the capital value pre-war of these lost or sold boats; then when you had to replace them you assumed that they cost double; that is, £1,700,000?—Yes.

6060. But you did not charge the whole of that to capital, because you had got a certain amount in your Depreciation Fund, or Renewal Fund, which you drew, and then you drew some from the Government Compensation account?—Yes.

6061. What one wants to get at, if one can, is what was, speaking generally, the amount left in the claim under (b) representing the capital upon which you claim an adequate allowance?—The only amount that would appear in the (b) claim in respect of replaced vessels under this arrangement would be the estimated cost of the betterment—that is, a larger ship or an improved article. The intention is to take out of (b) claim the total replacement cost of the ship lost, bringing the charge to capital only in respect of the betterment of the asset.

6062. So that, to put it shortly, what is left in your (b) claim, after this deduction, is the original capital cost plus the betterment cost of the vessel which is put to replace the lost one?—Yes, that is the intention. I could, perhaps, best explain it from the London Midland and Scottish figures, with which I am best acquainted.

6063. If you could give an illustration it would be helpful?—In the case of the London Midland and Scottish, we replaced seven vessels. The first cost of the ships was £333,235. We wrote that sum out of capital and charged £186,102 to the Renewal Fund

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[Continued.]

provided by the company, and the balance of £147,123 from the Government compensation. Then towards the cost of the new ships we applied a sum of £221,875 from Government compensation. We now propose to apply a further sum of £111,360; and when we have

done that we shall have used up the whole of the Government compensation and a further £11,000. All that will remain of the London Midland and Scottish Company's claim under (b) for these replaced ships will be the betterment portion.

Cross-examined by Mr. F. G. THOMAS.

6064. As a matter of explanation. As regards the statement "J.Q. 4 (Amended and Revised)" which you have just handed in, I notice that in the amount of claim, near the bottom of the table, you have set out the amount of claim under Section 53 (1) (b), as amended. You have not there given effect, have you, to the adjustment of the (b) claim in consequence of the deductions for steamboats and other matters about which you have just been speaking?—I have not given effect here to the deductions for steamboats only.

6065. That is to say, the real amount of claim is that which is shown on the statement "Item No. 4a"?—The amounts appearing on 4a are not carried to the Reconciliation Statement; the amounts appearing on 4 are; they can be traced through.

6066. It is not quite accurate to call that an amount of the claim as amended because the final amendments which are really proposed on behalf of the companies are those which are shown upon 4a?—Subject, of course, to the allowance forming part of the settlement of £2,000,000.

6067. Yes, quite so. The only other point to which I want to call attention is that you have included the expenditure on works costing less than £25,000 brought in to use prior to 1913 and not otherwise included. You have brought that into (b), have you not?—That is in accordance with the proposals we made on the 25th May last.

6068. That was one of the points, I think, to which the Ministry of Transport drew attention, as to what was the correct construction to be placed upon the section?—Yes.

6069. And you have assumed that the correct construction of that section enables you to make that claim in respect of those works which had been brought into use prior to 1913 but in respect of which cheques might have been drawn, or had been drawn, after the 31st December, 1912?—Yes.

*President:* Are you now appearing for the Traders' Co-ordinating Committee, Mr. Thomas?

*Mr. F. G. Thomas:* Yes, Sir; but I am not going into any matter of controversy. Under the arrangements between ourselves and the railway companies, the only points which we were entitled really to raise were questions which had been raised by the Minister of Transport, to which he had called attention; and whatever might be your decision on those points the traders, of course, would have the advantage. I merely intended to call attention to the fact that that is a matter which, so far as I am aware at the moment, has not been specifically decided.

Cross-examined by Mr. STAFFORD CRIPPS.

6074. I am afraid I am not quite clear yet as to this steamboat matter. First of all, dealing with the steamboats which have been lost and not replaced. What was the sum of compensation received from the Government in respect of those boats?—£1,163,324.

6075. Those are the ones that have not been since replaced?—Yes. Of course, some proportion of that is still in dispute.

6076. Let us take it as £1,000,000. Now, what has happened to that? Where is that going in the accounts of the railway companies?—Part of that has been used for the purpose of writing down the first cost of those vessels lost.

6077. How much?—£203,933.

6078. Have you a table with this on of which I could have a copy?—No, it is not correct; and there are a lot of pencil marks on it.

*President:* Counsel who then represented the Traders' Co-ordinating Committee did not think it necessary to cross-examine at all.

*Mr. F. G. Thomas:* And I am not proposing to cross-examine on that point at all. I merely desire to call the attention of the Tribunal to the fact that that is the method in which the accounts are presented, and that it is one of the points which it will rest with the Tribunal to decide. I am not going to say another word about it. There was one point, however, I am told I ought to call attention to. That is on page 444, where Mr. Merriman, who leads me on behalf of the Traders' Co-ordinating Committee, said: "May I invite Mr. Quirey, in arriving at that Reconciliation Statement, to direct his mind to this one point. There will be necessarily still an item for amounts not claimed. Will it be possible to make it perfectly plain what items are included in that? (Witness): It would be rather troublesome to get out the items not claimed. One would have to search through the records of so many companies' books. But I think it is fairly safe to say that there has not been an overclaim on behalf of the companies if I can show that there are amounts not claimed, and I think it would be fairly substantial. (Mr. Merriman): I thought possibly I might get an answer to that which would make it quite certain that we should not have to ask any questions."

6070. (To the Witness): Have you been able to do anything further on that point?—Yes. I have got some notes making up these various sums shown as expended and not claimed, under the various railway companies. It consists in the case of the London Midland and Scottish—to take my own company—of amounts expended by quite a number of our small subsidiary companies which we did not bring into the claim at all. There is the Cathcart District Railway, the Dearne Valley Railway, the Mold and Denbigh, and the Shropshire Union; there was some expenditure there. There were credits in respect of the Callander and Oban, the Charwood Forest, the Lanarkshire and Ayrshire, the Leek and Manifold Light, and the Wick and Lyster railway lines. We did not trouble to make any claim in respect of them. I have notes also of the amounts of the other companies as well. As a general rule they consist of small sums which have been omitted.

6071. Are they in a form in which you could put them in?—I am afraid they are not.

6072. It would be simpler if you could do that?—If it is desirable I could do it.

6073. Would you supply us with such information as you have?—Yes, I will supply it to Mr. Drage.

6079. It is hard to carry all these figures in one's head.

*President:* I see you have an industrious Junior taking notes down.

6080. *Mr. Stafford Cripps:* Then the balance of that, which is roughly £800,000—?—Is in the Renewal Fund.

6081. That has gone to the Renewal Fund?—Yes.

6082. Supposing—at some future date—a new steamship is acquired by one of these companies, will that new steamship be paid for out of the Renewal Fund or charged to capital account?—Of course I cannot bind any of the companies; but the proper course would be to charge to the capital account the amount already written out of the vessel lost plus the betterment portion of the new ship, leaving the charge to Government compensation the increased cost of the ship built.

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[Continued.]

6083. Let me take an example, if I may, because I want to get this clear. Let us assume that in the year 1930 (to take a year a little way off) your railway company—I do not know whether you have any money or not, but never mind—buys a new ship, gets one built. There are some ships which it has never replaced, and which have been written out of capital account, I suppose, at the date when they were lost or sold?—They were written out of capital account when lost or sold; at least, some of them would be written out in the year 1925; we wrote out part in 1924 and the balance will be written out in 1925.

6084. Therefore in the accounts for the year 1929, the year before you buy this new ship, that item will have disappeared entirely?—The asset is gone.

6085. Yes; and there is no entry?—No.

6086. When in 1930 you come to make up your capital account will not you in fact write into the capital account the cost of the new ship?—It might be done; I could not say.

6087. It is quite likely it would be done?—I do not think so. I think the company will have a knowledge of what was in the Government compensation, and will deal with the account correctly.

6088. Is that sum of £800,000 in a special fund or is it simply in the ordinary depreciation and reserve?—It is, in our case, in the ordinary Renewal Fund.

6089. It is not in any way earmarked?—No.

6090. So there is really nothing to tell anyone, when a new ship comes to be built, that they ought to deduct a part of its value, anyway, from the Depreciation and Renewal Fund?—That, of course, would be offset by the fact, would it not, that we would have to raise capital if we did charge the whole of the new ship to capital? The situation is very much altered since we were first discussing this.

6091. And there is nothing to stop you raising capital, is there?—No. But if we raise capital we can then get an allowance in our Standard Revenue, but we have to pay it out of interest to the new proprietor.

6092. But, on the other hand, the money in the Renewal Fund will earn that interest which you will pay out to the new proprietor?—No, it will not. The money that is in the Renewal Fund will go as another source of revenue, and will go—

6093. That depends how it is invested, does it not? Supposing it is invested in the works?—If it be invested in works we cannot make a claim for it.

6094. The Renewal Fund you are not going to make a claim for in any event, I understand?—I was expecting that you would deal with capital works. If you invest it in capital works then the capital works would possibly produce something that would go towards the traders' rates.

6095. That would not come in below the line?—No; but there would be nothing added to capital revenue

in respect of that new work which would be an earning asset.

6096. And on which the traders would have to pay the earnings?—Yes; but they would get the surplus.

6097. But they will not be any better off for it; they will be simply paying for the service?—No; it will go to their rate, because the Standard Revenue will not include any charge in respect of that new work.

6098. You mean to say if the Standard Revenue is sufficient to meet the earnings of the new work it will not have to be increased. Is not that right?—No, I do not think so.

6099. Let us assume the new work—to take an exaggerated example—is doubling the whole thing. Then if the Standard Revenue is sufficient to meet the earnings on that new work it will not have to be increased?—But the Standard Revenue does not meet the earnings on new work. Standard Revenue is the sum with which we compare our future earnings; the future earnings would include this new work, and the earnings of that new work might be an excess over Standard Revenue which would go, of course, to the extent of 80 per cent. to the traders.

6100. And 20 per cent. to the companies?—Yes.

6101. Let me put it like this: It depends on the way with which the railway companies deal with this £800,000 which is in their Renewal and Depreciation Fund, and the way in which they charge the sum which they have to pay for new steamships in the future, as to whether the users of the railways will get the benefit of the Government compensation money which was paid for the steamboats, or not?—No, I do not agree.

6102. Is it your view that, in any event, however the accounts be made up, the railway companies will use their Government compensation money for the purpose for which it was intended, to replace the steamboats that were lost?—I cannot bind them to do that; but I do not think that any users of the railways are prejudiced by the fact that we have an excess over the amount of the original cost of the vessels not replaced, because that sum does form part of the floating balances of the companies and earns revenue which forms another source of revenue in future years, and which goes in aid of the traders and users of the railways.

6103. What difference is there between this sum and the other sums for steamboats that have been sold which you have credited under Section 53 (1) (b)?—We have credited under Section 53 (1) (b) the first cost of these vessels lost and not replaced.

6104. But you have not credited the profit on them?—No. I cannot admit the principle that anything should be written out of capital other than the amount in capital.

(After a short adjournment.)

6105. Have you got the steamboat figures since 1913 with regard to all the railways?—You mean the amounts charged in the (a) and (b) claims?

6106. The amounts expended on steamboats, amounts received in respect of the sales or compensation of steamboats?—In so far as they relate to those paid for by the Government?

6107. No; altogether?—No.

6108. You have not got what I might call a steamboat account?—No.

6109. Take, for instance, the London and North Eastern Railway Company. In your Schedule "D," "R.T.2a," there are these entries with regard to expenditure; there is an item of the Great Eastern, £435,107?—That is right; that is in the original claim.

6110. Yes, that is the original claim?—I think it was adjusted later.

6111. I will deal with that in a moment. Then there are credits for the Great Central, £38,474?—Yes.

6112. Clyde Steamers, North British £20,000, and then there are sundry items costing less than £5,000, credit, £1,537?—That is right.

6113. That makes a total expenditure of £435,107, and total credits of £120,011?—Making a net debit of £315,096.

6114. And that is increased by the adjustments made afterwards to £435,107?—Yes.

6115. Does that include any sums as regards the sale made to the Government?—It may include some charges for boats replaced that had been paid for by the Government.

6116. Let us take it quite simply, first of all. Certain boats were sold to the Government?—I think the London and North Eastern Railway Company did not sell any boats.

6117. Some of their boats were lost?—Yes.

6118. And for that loss they got a sum of money as compensation which was equivalent to the purchase price of the boats?—It represented the unexpired life of the boat at replacement price.



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6119. Does that item appear in those figures I have given you?—The credit for the old boat lost would be deducted before the charge was made.

6120. That is to say, the credits are the total sums received by the railway company in respect of boats they no longer own; is that right?—The credits—

6121. Shown in "R.T. 2a," Schedule "D."—These credits may be in respect of sales of boats, I do not know whether to the Government or to other parties.

6122. Can you tell me whether Schedule "D" shows or not the sums which were received as compensation from the Government?—In so far as it was necessary to write out the original cost of the boats which had not been replaced.

6123. That is to say, it contains a portion and not the whole?—It contains the amount of capital account in respect of the boat, not the whole of the Government compensation received.

6124. That amount which was received from the Government in excess of the capital value of the boat as shown in the accounts at date was a profit on the capital?—It may have been, but it is held for ultimate replacement.

6125. If this steamboat account was made up to include all the sums expended by the railway company upon steamboats, and all the sums received by the railway company in respect of steamboats which have passed out of the capital accounts, the figures would, of course, be quite different to those which I have?—Yes.

6126. Can you tell me what those figures would be? I want the total expended since 1913 up to the date when Schedule "D" was made up—I think 31st December, 1923, is it not?—Yes.

6127. I want the total expended during that period and the total received for steamboats which no longer appear in the capital account.—I am sorry; I am not able to give you the London and North Eastern figures.

6128. Could you give me some other figure?—I cannot give you a complete steamboat account in respect of any of the companies. The figures I have were prepared in relation to the steamboats that were either lost or sold to the Government during control.

6129. Then you are not able to tell us whether these appear in Schedule "D" or not?—Yes, I am able to tell you that in so far as the expenditure was not charged in the (a) claim it appeared in the (b) claim; but the amount that would be charged would be the cost of the new steamer less the original cost of the old steamer.

6130. So that the £435,000, Great Eastern steamboats, is a sum made up of the total cost of the new steamboats less the amount which appeared before in the capital account of the steamboats which they replaced?—Yes, that is so, if that be the whole story regarding Great Eastern boats. There may be some in (a) claim for Great Eastern boats.

6131. Well, is there?—I will tell you. Yes, there was a sum for Great Eastern boats in the original claim of £832,837. That was subsequently adjusted to £727,825.

6132. Was some of that money money which had been provided out of the £2,500,000?—It does not enter into it at all. That is the amount expended by the company on steamboats less the cost of steamboats displaced.

6133. I want to know whether some of that money that was expended on steamboats—some of that £700,000 odd—was taken from the £2,500,000, or the share of the £2,500,000 which the Great Eastern Railway Company got?—Yes, in so far as it would be required to write out the original cost of the boat lost.

6134. I want to get this quite clear. That would be actually part of the £700,000 add?—Yes, part of the Government compensation was used for the purpose of writing out the original cost of the boat lost.

6135. Both under Schedule (a) and Schedule (b)?—Yes.

6136. And the rest of the Government compensation which was not so used has not appeared at all

in Schedule (a) or Schedule (b)?—No; it is not a capital account transaction.

6137. You say it is not capital account transaction. If on your steamboat account for the year you sell one steamboat at a loss and another at a profit, then you are entitled to take the amount of profit which you made on the second steamboat out of your capital account altogether?—In the case of two steamboats, one sold at a profit and one sold at a loss, the amount which would be written out of capital account would be the original cost of the steamboats which were taken out of service. It would have no regard whatever to the amount received in respect of the sales.

6138. I see. Where would the amount received from the sales appear?—The amount received would go to the renewal provision. You see, when the boats were sold credit would be given to capital account for the amount appearing in the capital account for those boats. The entry would be against the depreciation fund; the amount of the charge against the depreciation fund. That would be credited in the provision made annually, plus the amount received for sale.

6139. As regards "D," of course you do not treat it in the same way as you do in the capital account?—Yes; Schedule "D" is the reflex of the capital account.

6140. Are you dealing with the sums expended on steamboats in the same way in Schedule "D" as you do in the capital account?—Yes, the original claim. The claim up to the present time in respect of the London and North Eastern Railway Company is the amount expended on new ships less the original cost of the ships disposed of.

6141. And that new amount comes in as a debit to capital account?—Yes, the excess amount.

6142. You do not credit to capital account the excess amount you get on selling the ships?—No, because we take out of the capital account the amount of the old boat, but the proposal now is to give credit—

6143. Do not let us get on to that for a moment, because it makes it rather difficult to follow. As regards Schedule "D," you charge the excess cost of the steamboat over the original cost in the capital account. That is right, is it not?—That has been done.

6144. But you do not credit any excess price which you may get for an old steamboat over the amount at which it appears in the capital account?—No, not if the boat has not been replaced.

6145. As a matter of fact, you have available for purchasing new boats that excess amount which you have received above the original capital value of the boat?—Yes, we have that available.

6146. So that you could, if you wished, apply that sum towards the purchase price of the new boats?—Yes, and that is what is proposed to be done now, to apply so much of the Government compensation as will make the charge to capital account only the betterment portion of the new boat.

6147. I am dealing at the moment with the boats that had been lost and not replaced?—They are written out of capital now, and any excess of Government compensation remains in the renewal provision account.

6148. But it is available there to pay for the new boats, any new boats that may be required?—It is available for replacement purposes.

6149. Of any boats?—On any boats.

6150. And, therefore, when you are actually considering the amount of new capital that you have got to raise in order to purchase new boats, I suggest to you it would be a fair and proper thing to deduct first that sum which stands to the credit of the renewals account which is available for the purchase of new boats?—No, I do not agree. The amount would not appear in the capital account at all. The excess sum will not appear in the capital account as a credit. What we must raise for the

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purpose of the claim is the amount charged in the claim.

6151. But, as a matter of fact, you have not got to raise as much as that, because you have already got some of it in your renewals account?—It is quite true that the funds of the company are enhanced, but we must raise the capital if we are to get the allowance of standard revenue.

6152. I think you told us about that at Question 5510, on page 854. You say there, "The amounts were credited to the Depreciation Fund, and they remained there." That is the amount you received from the Government?—That is right.

6153. "But in the year 1924 the vessels have been written out of the capital account, and they will form a credit in the 58 (1) (b) claim to be lodged in the future?"—That relates to two ships of the London Midland and Scottish Railway Company.

6154. It is the system I am talking of; not the details of the ships?—(b) claim would have been credited with the original cost of those ships if the entry had been made currently. The entry was not made until the year 1924, and that credit will come into the further claim under (b).

6155. I think I misunderstood your answer, because I understood you there to mean that the amounts received would have become the credit, not the amount at which the boat stood in the capital account?—I did not intend to convey that impression, at any rate.

6156. I quite appreciate that. The balance of that sum would simply have remained in the depreciation account?—Yes.

6157. And that same principle applies to all the railway companies?—Yes, in so far as the ships are not replaced, that is so; the amount is available for future replacements.

6158. If, when future ships are purchased, instead of being paid for out of capital, they are made a charge on capital, then the users will lose the benefit of that amount of money. I think you said that before?—No; I must have misled you then, because I say "No." When ships are replaced, if inadvertently the whole sum is charged to capital, before we get any addition to our standard revenue we would have to raise the capital; the old surplus which will remain in the funds of the company would earn the interest which it is earning to-day.

6159. But, of course, it is not earmarked in any way, as you have told us, and it could be used for paying dividends or anything else?—No, it could not be used for paying dividends because it is in the depreciation fund, and you cannot use the depreciation fund for paying dividends.

6160. I think you said it was not earmarked?—Not for a particular vessel; it is earmarked as a renewal provision.

Mr. Stafford Cripps: I see.

6161. Mr. Locket: Earmarked as a capital item?—Earmarked as a reserve for replacement.

6162. That is a capital item?—In railway accounting it is not a capital item. You will find it in the balance-sheet of the companies under depreciation fund.

6163. Mr. Jepson: I am not quite clear about this, and I would like to take an analogous case. Let us assume you have bought some land before 1913 and the land stands in your capital account at £20,000, and during the period of control it is sold for £30,000. You give credit—there are several purchases in your claims under (b) for land—then only for the £20,000 at which the land stood in your capital account. Or would you give credit for the full £30,000 in that case?—I cannot tell you what would be done in such a case, except that the amount that ought to be credited to capital account is the £20,000.

6164. What would then be done with the £10,000 profit on the sale?—The company might put that to some of their reserves, or they might treat that as a free reserve, because there is no liability against it.

6165. There is no fund such as capital account to which that could properly be placed; that is, to the credit of capital account, capital account not expended?—No, you would not do that. The £10,000 properly fell in as a reserve of the company.

6166. You see what is in my mind having regard to the future. Under the scheme of the Act, any capital expenditure during any current year the railway companies have the right to make a claim before the Tribunal to get an addition to the Standard Revenue in respect of that capital. Now, supposing you built a new boat, and without any regard to your depreciation fund you charged the whole of the cost of that new boat to capital, and you come along here and put in a claim and say: "We want 5 or 6 per cent"—whatever it is—"on that as an addition to the Standard Revenue for the next year." The interest of the traders, of course, is to keep that amount as low as possible, and therefore it is to their interest to see that any amount you have already got in your depreciation fund as compensation from the Government should be used to reduce that capital expenditure on which you are making a claim for an addition to the Standard Revenue. How is that going to be provided and secured in the future, if there is no earmarking of these amounts which have been put in the depreciation fund as compensation for boats that have not been replaced? How is that position going to be secured to the trader, and how are we to know that the proper amount of capital is being put before us for the claim?—In the first case, at all events, the claim which will be made to you will be the amount appearing in the capital account, and I suppose it would be a question whether it was a proper charge or not; but, on the whole, I do not think there is any hardship, even in that case, if the whole was charged to capital account; because, as I said before, to get the allowance we must raise the capital and bring in the amount into the concern. We can only get an allowance in respect to our Standard Revenue upon capital expenditure if we raise the capital.

6167. Quite. The question is whether you ought to claim on the total amount of the capital you raise when you have got a large amount already in your pocket to meet the replacement for that purpose?—If we do not raise the capital and charge it to the depreciation fund, we deplete the cash resources of the company and the general interest account will suffer correspondingly.

6168. Of course that must be the effect?—That is so. That is the position now.

6169. Mr. Stafford Cripps: I was going to ask you to refer to another question which you answered before on page 91, question 1159. You see there I was asking you about this £2,500,000, and I was suggesting to you that it might not be expended for a long time, and you say this: "I do not think it is likely that the companies will overlook it and charge capital where they ought to charge the fund. (c.) If they did overlook it, it would be unfortunate to the passengers and other people?—(c.) To the extent of 6 per cent. on the capital cost, yes." Now, is not that the true answer?—No, not now for this reason, that the circumstances have entirely changed since those days. Had we charged the amount under those circumstances to capital account as a whole and not raised any capital moneys, we would have spent the sum appearing in the depreciation fund. We would have applied to the Tribunal for an allowance in respect of the capital expenditure and at the same time have depleted the General Interest Account. We would be getting the amount twice in such a case.

6170. You were assuming there that under Section 59 you did not have to raise any capital?—Yes, providing our free reserves were sufficient for the purpose.

6171. With regard to the old boats which have been replaced, I understand you say that a proper allowance would be £540,000?—Yes, so that the charge to the Renewal Fund of the Government compensation would be 100 per cent. over the cost of the boats

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[Continued.]

lost, on the assumption that to replace an old boat with a boat exactly similar to-day would cost 100 per cent. more.

6172. That is, of course, necessarily a guess, but you have looked into the figures, and that is your opinion?—We have looked into it.

6173. I accept that. That £540,000 does not include in any way anything in regard to boats which have not been replaced?—No.

6174. And supposing the Tribunal were to consider that the allowance should be made with regard to the boats that had not been replaced that would mean another £800,000 about?—£638,000; but it would be writing out of capital account something that is not income.

6175. I quite appreciate what you say, but I only want to get the figure. It would be another £638,000?—What we are proposing to do now is this. In respect of boats that were sold or lost and since

replaced we received £1,299,292; we used £612,174 towards writing out the old boats and applying a certain portion to replacement. We are proposing now to credit (b) claim with £540,112, and we have used up the whole of the Government compensation with the exception of £146,000.

6176. The whole of that half of the Government compensation, not the whole £2,500,000?—The whole of the Government compensation in respect of boats that have been replaced.

6177. For that purpose you have got to make an arbitrary division of the Government compensation?—No.

6178. You are not dealing with it as a whole?—I have divided the Government compensation into two parts; the amount received in respect of boats lost and not replaced, and in respect of boats lost and since replaced.

Further cross-examined by Mr. MORRISON.

6179. Could you tell us when the boats which this £850,000 is in respect of were purchased by the company?—No, I cannot tell you.

6180. They were purchased well before the war, were not they?—They may have been; I cannot say.

6181. Is there no record at all as to when the companies purchased the boats in respect of which that figure appears?—Yes, there would be a record at the companies' offices.

6182. But you do not know?—I have not got that.

6183. The £850,000 was the original cost of those boats?—Yes.

6184. Has that figure been depreciated in the capital accounts of the companies?—No, not in the capital account.

6185. Would it have been depreciated anywhere?—Yes.

6186. Where?—Provisions for renewal are made annually as a general rule, and the accumulated sum would appear in the balance-sheets of the company.

6187. But in the capital account the £850,000 did still appear up to the time it was taken out?—Yes, in accordance with the Statute under which the railway accounts are kept. We keep our accounts on the double account system.

6188. The Government compensation figure of round about £1,300,000, was that in respect of these boats that were either lost or sold only?—Yes.

6189. So that that figure may well be quite double the real value, that is the depreciated value of the boats?—I could not tell you what relation it has to the depreciated value, but I can tell you this, that it represents the amount of the estimated replacement cost of the ships when lost less the amount of depreciation which we were obliged to calculate under a formula set out in the agreements with the Government.

6190. But these were boats which cost £850,000 and the Government compensation was approximately £1,300,000?—That is right.

6191. What I am putting to you is this, that clearly it is unfortunate that you do not know the age of the boats when they were sold or lost. What I am putting to you is this, that the depreciated value of those boats must have been materially less than £850,000?—No doubt the depreciated value was less, but the calculation of Government compensation was made on that basis.

6192. Was the Government compensation based upon the approximate cost of replacing those boats or upon the value of those boats to the companies?—I do not know whether you have considered the Colwyn Report, but you will see there the formula which is set out in the agreements between the companies and the Government in respect of boats lost. We were obliged to obtain tenders for replacing the boats at the date of loss, and from the loss was deducted the amount of accrued depreciation.

6193. When was it that the companies began to have doubts as to the propriety of making a claim

under paragraph (b) in respect of these boats—how soon?—I do not quite understand what you mean.

6194. The companies made originally a different claim to what they are now making in respect of the steamboats. They made a full claim under (b)?—I think I explained before to the Tribunal that the practice with regard to the charging of steamboats was not uniform with all the companies.

6195. Your attitude towards the steamboats has changed since the time that the original claims were deposited?—I would not call it changed; I should say that we were attempting to have a uniform practice.

6196. You see, what I want to get from you is this, that a concession has now been made to the users of the railways in respect of steamboats, has it not, which indicates that Mr. Cripps' criticisms of the companies' position in respect of steamboats has had some effect on the companies?—If you put it that way. We say what we propose to do is to credit to the (b) claim a sufficient sum so that the amount included in it will represent the betterment of the boats; that is to say, increase the passenger accommodation.

6197. You can afford to be as generous as Mr. Macmillan was to Mr. Cripps and say his criticisms have had an effect on the railway companies?—Perhaps.

6198. When did those criticisms take effect in the minds of the railway companies?—I could not tell you.

6199. Was it before the negotiations commenced with the Co-ordinating Committee or after?—I could not tell you. You will get the information regarding that from Mr. Ackroyd.

6200. Had any doubt occurred in your mind before the proceedings of the Co-ordinating Committee commenced?—I was not concerned with the question of the steamboats before that.

6201. You had nothing to do with that at all—the change in the companies' policy?—Personally I had not. I was, of course, a member of the Accountants Committee which dealt with these tables.

6202. In respect of the claims under (c) are we to understand that the claims under that paragraph as originally framed included expenditure which actually was made after 1st January, 1913?—In Section (c).

6203. Yes?—There were some few charges; they are set out in the Minister's Report, Appendix "A."

6204. They were subsequent charges after the 1st of January on the completion of certain works in hand, were not they?—Yes, there were a few charges in respect of work which came to about £25,000 in all.

6205. The object of the subsequent expenditure was to make the works which were in hand prior to 1st January, 1913, fully remunerative, I presume?—No, to complete them.

6206. The object of completion was to make it remunerative, surely?



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[Continued.]

6207. *President:* He said "fully remunerative." I think Mr. Quirey would probably say even if they were completed at a certain date there might be an interval before they became fully remunerative; I think that is the difference between you at the moment?—Yes.

6208. *Mr. Morrison:* I know that you are not responsible for the negotiations, but so far as you are concerned the case for and the reasons for the original claims under Section 58 (1) (c) still remain?—I think you had better get that information from Mr. Boothroyd or the general manager who will follow me.

CROSS-EXAMINED by Mr. Worrall.

6212. I take it that this figure of £540,000 is hypothetical. Would you not say so; it is not an actual figure?—It is an actual figure calculated on an estimated replacement cost.

6213. But with your knowledge of the practical working of accounts I take it there is a ledger account opened in the books for every steamboat?—No.

6214. For instance, you would have a heading in the name of a particular boat in the ledger?—No.

6215. Not in your company? Is that the general rule that there are not ledger accounts opened for each steamboat?—No. The ledger account would be the capital expenditure of the company on steamboats.

6216. And then, I suppose, you would debit the expenditure of so many thousand pounds, running into £100,000 perhaps for a boat, and then you would credit the amount that you would write off and place it to the depreciation; is that the procedure?—No. You see the railway system of accounting is not the same as commercial practice. The amount in capital account is not disturbed. There is set up a reserve, a renewal provision account, which is a separate account entirely.

6217. You mean that one would have no relation to the other?—They would not be merged in one account.

6218. But is there not a system by which you can say that this steamboat has depreciated so much; you have taken stock of that steamboat, say at £100,000, and written down so much?—There would be a memorandum kept of course of the history of each steamboat, but it would not affect the capital account of the company.

6219. It would not be worked into the capital expenditure account which we have to take cognisance of in putting our case before the Tribunal?—No.

6220. There is no figure that we could prove as far as the steamboat is concerned?—What you could see would be the expenditure in the capital account upon steamboats, and in the balance sheet on the liability side you will find the depreciation fund for steamboats.

6221. So that really this is a hypothetical figure? Instead of being £500,000 it might very well be £1,000,000 if you went further into it?—No; it could not be anything more than £540,112 if our estimated replacement cost is anything like right.

6222. That means that there is a book in which this estimated replacement cost is worked out?—Or a piece of paper.

6223. A railway company surely does not do its business like that—work it out on a piece of paper and not put it in a permanent account book. Still my point to the Tribunal is this, that surely you could bring in a sort of reconciliation account showing that this is a correct figure more than an assumed figure. In the statistics of the company you have so many boats; all told, I take it, in 1913 there are 217 boats shown on the statistics. Then you have a depreciation account for steamboats in another part of the accounts. There is no less than £3,361,000 earmarked for depreciation. Surely there is some relation between these things so that you can accurately gauge what is the true position, because, of

6209. But you were responsible largely, were you not, for the original claims and answered for them in the witness box?—Yes; I put the claims in on the formula.

6210. And the justification which you then made for these claims in examination and cross-examination would still stand?—It was that on the whole it represented our estimate of the amount required to be added to the 1913 revenue in respect of these works.

6211. On the basis of the formula which was then stated by counsel and by yourself in the witness box?—Yes; on the basis of the formula since rejected.

course, our trouble is in dealing with the hypothetical cases?—I do not quite understand what you are getting at.

*President:* Could you put it in the form of a question, Mr. Worrall?

6224. *Mr. Worrall:* I ask you distinctly whether there is not something more on record than some data on pieces of paper; whether there is not an arithmetical working out of figures in a debit and credit form in a ledger so that we can have accurate figures?—The amount in that capital account will not be disturbed whether the boats are renewed or not, if they be renewed by boats of similar capacity. When a new boat of additional capacity is put into service the amount is charged to capital account and there would be added to the renewal provision account for steamships the appropriate sum to set aside year by year to renew that boat.

6225. I follow all that, but is not there a stock-taking at any specific date in which the value of each boat is shown say at the standard revenue date in 1913?—No; there is no valuation made of boats year by year in order to ascertain whether the depreciation fund is ample or not.

6226. My point before the Tribunal, and I put it to you, is that this may be considerably underestimated unless you can prove the figures which you are put into the box to prove?—I say that in the opinion of the railway companies the boats that were lost during control and which have been replaced, could have been replaced by boats of similar capacity over that period at an estimate of 100 per cent. over pre-war cost.

6227. That is a rule of thumb, is it not?—It is not a rule of thumb at all. We know the prices of the boats that have been purchased, and we know the cost of the boats have gone out in the years 1920 and 1921—

6228. You give me my point, that there is really no accurate statement of figures showing what the value of these boats would be at the standard revenue date?—There would appear in that capital account what I have already explained, the first cost of the boats, and there would also appear in the balance sheet the amounts set aside for renewal.

6229. Could a reconciliation account be prepared to place before the Tribunal showing that those figures are correct?—I do not understand what a reconciliation account consists of in this case.

6230. Well, we have several reconciliation accounts which you have put before us showing how you reconcile adjustments, and so on, and get back to where you started from?—What I put in is a reconciliation statement of capital expenditure which has been made by the companies on the claims that have been made by the companies in respect of capital expenditure.

6231. Well, this is the first time that the outsiders, such as myself, have gained a point, if we can call those outsiders who are outside the inner fringe. I put it to you, if we went along these lines, should we find out something else besides steamboats?—I do not know what you have found out about steamboats, or what you would find otherwise.

6232. We are told that this is sort of thrown over to us as something that we have gained by perseverance and zeal—"zeal" was the word used?—It is proposed to credit to Schedule D, paragraph (b)

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[Continued.]

claim, a sum of £540,000, and that is the length I am taking it.

6233. Could we not trace this further?—There are only three headings—railways, steamboats, and other business. In those three items, which are very large items—one is no less than £8,000,000—would not there be works which we could claim in the same way that we are claiming steamboats if we went far enough?—No, because there has not been anybody providing an amount of compensation for those works displaced.

6234. There are no other sort of works that you could carry in your mind that have been displaced in the same way?—There has been no outside body providing the Company with funds in respect of property lost.

6235. Has there been any such property lost during the war which could be claimed—such as rolling stock that went abroad?—No; that came back.

6236. If it came back, has any calculation been made on that sort of material?—There is not any calculation necessary in such a case.

6237. Possibly there was a lot of it lost; surely it did not all come back, and it still may be in capital account. I put it to the Tribunal that that is quite a proper question that I should ask—whether among the rolling stock there is not similar stock?—As far as I know, there is not.

6238. As far as you know, there is nothing?—No.

(The Witness withdrew.)

Mr. ALLEN BOOTHROYD, recalled.

Further examined by Mr. CLAUSON.

6239. I want to ask you one or two questions as to the negotiations which led up to the settlement with which we are concerned at the moment. On Tuesday the 24th March, the Tribunal sat, and I think immediately after that, in a tentative way, negotiations began, did they not?—That is so.

6240. I think in the first instance quite informally, and then a suggestion was made that the traders on the one side and the Railway Rates and Charges Committee on the other should appoint a sub-committee to canvass the position and see what could be done?—That is so, yes.

6241. You and some other gentlemen were appointed as a sub-committee to represent the railway side of the matter, and you met certain gentlemen who had been appointed to represent the traders?—That is so.

6242. Out the understanding, I imagine, that all negotiations, of course, were quite without prejudice?—That is so.

6243. Can you tell the Tribunal from what basis the effective negotiations started?—Yes. We began it by discussing the companies' claim under paragraph (b) and the position at which matters then stood. When the Tribunal adjourned on the 24th March the matter stood in this way, that the Traders' Co-ordinating Committee were to compile and supply the railway companies within about a week with a list of the works included in paragraph (b), which it was claimed had not enhanced the value of the undertaking.

6244. That was, of course, on the footing that the onus was on the traders in regard to that matter?—That is so. The Traders' Co-ordinating Committee were considering the preparation of their list of items which they would object to on that account. We first of all approached that subject, and we discussed for some time the question as to if and how far we should reduce the claim under paragraph (b) in respect of works which we might admit had not enhanced the value of the undertaking. The result of the discussion was that we had to state quite plainly that we could not make any deduction from the (b) claim as matters then stood in respect of non-enhancement; we were satisfied that the works which were included in the paragraph (b) claim were works which had enhanced the value of the undertaking,

Mr. Jepson: Do you find anything in the railway companies' claims under those heads?

Mr. Worrall: Well, we are in such a position that we cannot delve into these things in the same way as these expert gentlemen can; we ask them for guidance and we are very grateful indeed that the Ministry of Transport have pointed out a few things. Surely if we ask a question and you rule that this figure should be reconciled with regard to steamboats we might possibly, with the help of the Ministry of Transport, find something else besides steamboats?

President: Well, we are not going to rule that there must be a reconciliation statement, so perhaps that would conclude your point.

Mr. Worrall: Thank you; I did not want to bring it to that, but that is really the position. My submission, very humbly, is that we ought to have a reconciliation statement seeing that this is hypothetical.

President: Yes; we have ruled against you.

Mr. Worrall: Very well; that disposes of that. Then, on the other point, with regard to the rolling stock, might I press that further?

President: If you like; we shall rule against that in the same way.

Mr. Worrall: At any rate, I pointed out, and possibly some zealous gentleman appointed by the London County Council, or some other body, will come along and point out other things to you.

and whilst we were quite willing to go through them again if need be, there was nothing which we had at the moment which we could take out, and the traders of course intimated that in the result it might possibly be that they would have to file a fairly long list of items in order to make sure that everything was in that they might conceivably object to.

6245. That was the position from the point of view of (b)?—That was the position from the point of view of (b), and that was how we began to talk about (b), and talking about (b) of course one got on to talking about (c) as well. We had already arranged before the first formal meeting took place that we would discuss the claims both under (b) and (c), and of course we came not only to discuss (b), but also to discuss (c), and when we got to (c) we had a considerable talk as to the position of matters in relation to (c). Of course it was quite clear that the formula had gone. I think it was recognised that it was not possible to deal with (c) at all except on the basis of the formula or going in to each individual item and dealing with it separately. The question really was raised as to whether it was possible to dispose of (c) with the broad axe rather than take up time in dealing with individual claims. Of course, we pointed out to the traders that whilst it was quite true that the formula had gone, it did not by any means follow that the claim of the railway companies under paragraph (c) was at all diminished. If it had been admitted when the formula was under consideration that because of the formula there were works in the list which the companies would not contend were not fully remunerative; they were put there because of the operation of the formula.

6246. The basis of the formula being a purely arbitrary period?—A period of 15 years, and all works included in that period, but let that go, and of course you have to go back beyond the 15 years, and if you have, as is the case, works that were not fully remunerative at the end of 1912, which were more than 15 years old, they, of course, fell for consideration; and there was the further fact to take into account that you were not limited of course when you abandoned the formula to 5 per cent. What you have to regard in each case is, what is in fact full remuneration and that of course may be a varying factor. Whatever the full remuneration be,

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[Continued.]

it goes into the revenue of the company and the amount by which in a particular case one fell short of full remuneration was the amount of one's claim, and that meant that in some cases substantially more than 5 per cent. would be the claim of the company.

6247. That being the position, was there a discussion between the two sub-committees of particular items?—Yes. Quite a number of particular items were mentioned in the course of the discussion. You see we were in this position, that a good deal of time had been given to the companies' claim under paragraph (c) in the proceedings last year, and in the course of those proceedings a very large number of individual items had been referred to, so that on both sides we knew, of course, about those items, and items of various kinds were mentioned and they were discussed.

6248. That is in regard to (c)?—Yes.

6249. In regard to (b), was there any discussion as to items at that stage?—No, not in the same way. The case we made upon (b) was this: that we were satisfied that the works included in (b) were works which enhanced the value of the undertaking, and, as matters then stood, we were not prepared to make any deduction from it.

6250. That was the position in regard to the two sub-committees. Was that the stage at which the matter went to the principal committees, or was there any sort of tentative arrangement come to?—No; we got a stage further. Having discussed pretty well round the subject, both paragraphs (b) and (c), we really came down to the question what could be done to settle both. The traders pressed for a lump sum allowance under (b), and we were equally firm in pointing out that we could not make an overhead deduction from (b). We did, however, say, and in saying this we had the steamboats in mind, that we would look further into the (b) claim and see if there were further credits which we could give; that we had no objection with a view to a commercial and a businesslike settlement to a lump sum deduction; but we must make the reservation that, in so far as the overhead deduction did not fall to be dealt with by specific items in (b), it should be a deduction from (c), because in (c), of course, we were dealing with a subject-matter which, once determined, is determined for all time. Having got that far, we did, before we parted, come to the conclusion that we were prepared to recommend an allowance for (c) which would be substantially two-thirds of the claim that had been put in, coupled with an allowance for (b) as it then stood with a £2,000,000 deduction over all, the £2,000,000 deduction to be the subject of consideration by the railway companies, and further determination. Then, of course, after that you see we did tell the Traders' Sub-Committee quite plainly that any deduction that we did make in respect of (b) we should propose to make in respect of the steamboat item. At our second meeting that of itself formed the subject, perhaps, of the most considerable discussion.

6251. At that stage was the matter referred to the full Committee, and was there then a further discussion?—Yes. We got to the point at which we got to the third deduction from (c), the £2,000,000 over all, and then we went back to our

full Committees, and [we on our] side explained exactly how matters stood and got instructions as to what we were to do.

6252. On the resumption of the negotiations was a question raised as to what the effect might be as to the Minister of Transport's Report?—It was.

6253. How was that matter dealt with?—Well, the traders very strongly pressed us that any credits which we were prepared to give in relation to steamboats should be in addition to the £2,000,000, and we ultimately had to say quite frankly that we were not prepared to accept that, and if that were insisted upon the probabilities were that the negotiations would not go through, because we were not prepared to exceed the £2,000,000, and that has been our attitude throughout; the £2,000,000 is the highest sum that we will submit to as a deduction overhead. We did then get to a discussion as to what was to be the position in relation to the Minister's Report. We did not know what the Minister's Report would contain exactly; nor did the traders; but we did think it fair that we should both be in the same position in that respect, and that was when we received the Minister's Report we should each be entitled to consider it for ourselves and if need be to object to it. When the Report had been dealt with, when the objections, if any, on either side had been considered and the Report had been given effect to, then upon the figures, as I say, affected by the Report would we apply the settlement, but we definitely and finally refused to add anything to the £2,000,000, and that has been our attitude throughout.

6254. As regards the allocation of the £2,000,000 as between the (b) and (c) claims, how was that left?—That was left for the companies to determine. There were two things in that respect which had to be decided. In the first place, the companies had to agree how they would divide the £2,000,000, and a tentative suggestion put up by the traders for a division was one which we did not accept, but we did ultimately decide how that should be—the £780,000, the £730,000, the £330,000, and the £160,000—and we communicated that to the traders, and then, of course, we had to decide how we would debit each company with its allotted portion. That, again, was a matter for the companies to decide, the result being as shown by the figures that the £540,000 comes off (b), and the balance off (c).

6255. But with that allocation the traders were to have nothing to do?—No, they were not concerned. As long as they got (c) reduced to two-thirds and they got a £2,000,000 over-all deduction it really did not matter to them whether it came off (b) or (c).

6256. And I dare say you entirely agree with what was said with regard to the matter, that not only were they not concerned, but they have no responsibility in any shape or form?—That is perfectly right, and, of course, the settlement is one settlement; it is a settlement in relation to this particular work or that particular work; it is a settlement on a commercial basis of the whole subject matter.

6257. I think, if I am not mistaken, it was on the basis of its being a settlement of that character that the negotiations throughout proceeded?—Certainly.

Cross-examined by Mr. STAFFORD CRIPPS.

6258. When was it exactly that this settlement was come to?—The 21st April.

6259. When was it that the question of steamboats was first mentioned?—I do not mean first mentioned before the Tribunal; I want to know when it was first mentioned in any committee?—In any negotiation? I think it would be the 31st March.

6260. It did not occur to you, I suppose, to ask the London County Council to take any part in these negotiations?—Well, it did occur to us, you know, but there were difficulties. The real difficulty was this: if we invited the London County Council, we

should have had to invite, I think, all parties before the Tribunal. If you have two sides to negotiate and you multiply them to four or five, you do a good deal more in multiplying your difficulties of ever arriving at a settlement.

6261. Or, on the other hand, in multiplying the satisfaction of the people who are parties to the settlement?—Yes, if ever you do get there, which is doubtful, of course.

6262. When did you first have the figures of the £541,000 item?—The first figures suggested were somewhat in excess of that.



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[Continued.]

6263. Who suggested it?—I cannot tell you, but the first figures were certainly supplied by the railway companies.

6264. When were they supplied?—Some time between the 31st March and the 21st April.

6265. But you cannot tell us when?—It was by letter from the railway companies to the Sub-Committee.

6266. Have you got the letter?—These negotiations were without prejudice.

6267. Have you got the letter?—Yes, I have the letter.

6268. Can I see it?—Yes. The letter is dated the 9th April; it is a fairly lengthy one.

6269. Can you just point out the passage; I do not want to read all through it?—Yes. There are some six or seven pages of it.

6270. Just put a pencil mark where the passage occurs. (*Document handed to Counsel.*) I see there you stated that the total of the claims under paragraph (b) would be reduced by roughly £960,000 for steamboats?—That was afterwards reduced.

6271. And, of course, that was without any admission?—Oh, yes; this was negotiation, you know.

6272. Quite so; I am obliged to you. That was, you say, the 9th April?—Yes, and that included items which fall for future consideration; that is to say, it included the L.M.S. items which will not be credited until the 1924-25 accounts.

6273. What are those items, because we have not heard of those?—Yes; Mr. Quirey mentioned them in the box just now.

6274. I did not appreciate that?—Some £245,000 of credit which is not made until 1924.

6275. That will come into 58 (1) (b)?—That will come into 58 (1) (b) when 58 (1) (b) for 1924 comes up for consideration.

6276. And that is part of the £2,500,000 that we have been talking about?—Yes; it is a credit in respect of steamboats.

6277. So that there is still some credit to come besides the £540,000?—Yes; there is the credit in the London Midland and Scottish for 1924.

6278. Is that the only one?—It is the only one that I know of.

6279. I heard somebody say there is the Southern Railway too?—I do not know of the items.

Cross-examined by Mr. MORRISON.

6280. Which of the railway companies are you employed by?—The London and North Eastern.

6281. In what capacity?—Assistant Solicitor.

6282. When you began these negotiations did you carry in your mind the provisions of Section 53 (1) (c)?—Yes.

6283. And have you advised your company that the settlement you have come to is in conformity with that paragraph?—Yes.

6284. You told the Tribunal that it is impossible in this settlement to separate the settlement in respect of (b) from the settlement in respect of (c)?—Only in relation to the negotiations for the £2,000,000; the settlement is now complete, and the separation is complete.

6285. Well, is it?—That is to say, the settlement is a settlement under which, taking the formula for the purpose of arriving at a figure, you reduce them to two-thirds, and you then reduce it further by 5 per cent. on a capital sum of—I forget the figure—but roughly £1,500,000.

6286. The settlement made a common reduction of one-third, and it gave an overall capital allowance of £2,000,000 which was not in respect of (a) or (b)?—It was in respect of both.

6287. Which was not in respect of (b) or (c) rather. It left the railway company to make its decision as to the apportionment?—Yes.

6288. So that the settlement itself as it was submitted to the Tribunal in a document was a combined settlement, and it was impossible to separate the provisions of paragraphs (b) and (c)?—The settlement was perfectly plain. It was a settlement under which (c) was reduced to a certain figure, and the two together were reduced by an overhead sum to be determined as to amount by the railway companies; that was the settlement.

6289. And actually some of the concessions which the railway companies gave in respect of paragraph (c) were actuated by certain considerations in respect of paragraph (b)?—No.

6290. But did you not say that to the Tribunal in examination?—I hope not.

6291. Then I have a wrong impression. Am I right in having the impression that, for example, the full percentage allowed to the railway companies under the proviso in respect of economies has some relation to the reduction by the companies in the amount of claim under (c)?—I do not think the economies settlement had anything to do with (c).

6292. Had not it?—I do not think so. As a matter of fact, on one occasion we discussed both matters at one interview one after the other.

6293. You have stated that certain of the items claimed under (c) in all probability could not be

justified by the companies?—That has been stated previously when the formula was under discussion.

6294. And that is admitted?—That was admitted.

6295. On the other hand, you think there are additional items which could have been brought in which might have replaced them, or more than replaced them?—Clearly.

6296. But it is admitted that in a claim made by the company certain of the claims were bad?—Certain of the claims were such as could not be justified because of the rejection of the formula.

6297. To that extent then that paragraph of the section had not been complied with?—Well, of course it was explained by the railway companies at the time exactly what was the basis of the formula; the whole thing was gone into; it was not pretended to be more than it really was.

6298. Were you contemplating also going back further than 15 years?—Oh, yes.

6299. If you were upset on the other point?—Upset on which point?

6300. As to the examination of the claims in detail and certain of them being found bad; you had in reserve that you might bring forward claims which went back further than 15 years?—May I put it in this way: that if the settlement is not now approved and does not go through it is the intention of the railway companies to go back beyond the 15 years and submit to the Tribunal for qualification under paragraph (c) works which were over 15 years old at the 31st December, 1912.

6301. Have you any idea how far you might conceivably go back?—I cannot tell you.

6302. Thirty years?—Yes, I should imagine even 30 years. I can think of a work that probably was not fully fructified at the end of 30 years.

6303. May I put it to you that if you go back 30 years in a claim that the capital expenditure is not fully remunerative after 30 years, surely one must assume that such capital expenditure could not have enhanced the value of the undertaking?—I do not follow on what ground you make the assumption.

6304. Is it an unreasonable assumption that if capital expenditure took place 30 years ago, and has not become fully remunerative, that such capital expenditure did not and has not enhanced the value of the undertaking?—I think it is quite unreasonable if you can show that during that 30 years the work has progressed—slowly possibly, but steadily. If there has been a steady and slow progression, and you can see that it has not yet arrived at full remuneration, it seems to me inevitable that it must have enhanced the value of the undertaking.

6305. Probably if there was that expenditure that took 30 years to become fully remunerative, the share-

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[Continued.]

holders of the companies would have some criticism to utter, would they not?—Oh, I have no doubt; that, of course, is the experience of new railway companies.

6306. The discussions which took place in the course of the negotiations between you and the Traders' Co-ordinating Committee did not relate in detail to all the items of the companies' claim?—All the items of the companies' claim under paragraph (c) were the subject of our discussion; they were not all of them mentioned, but they were all of them there to be mentioned if need be.

6307. They were not discussed item by item, or justified item by item?—We did not start on the first page and go through the list.

6308. And, of course, even if you had, it would not necessarily have justified them to the Tribunal?—No.

6309. Do you say now that the formula has gone—that is the original formula upon which the claims were made under (c)? Could you tell me what has taken its place?—This settlement at the moment.

6310. But surely this settlement is an adaptation of the original formula?—The formula was only used for one purpose, and that was to arrive at a negotiating figure.

6311. A round figure?—Not necessarily a round figure—a negotiating figure.

6312. A lump sum?—Yes, a sum to bargain about.

6313. And therefore not necessarily related to the details of the claim?—Well, possibly not, but at any rate the sum that was bargained about was the sum provided by the formula.

6314. Quite so, and the sum which was the result of the formula which was bargained about has now been modified in a flat rate out right the way through by a new formula which you have arrived at with the Traders' Co-ordinating Committee?—No; what we have arrived at is a lump sum settlement which gives us something like £963,000 for the four companies.

6315. Let us see what happened. Totals were arrived at as the result of a formula, were not they?—The formula had given a figure.

6316. It produced a figure?—Yes.

6317. And that was the only place from which the figure came, was it not?—It was the only place where that particular figure had come.

6318. Having got the figure, you negotiated with the Traders' Co-ordinating Committee?—Yes.

6319. On the basis of that figure?—That was the starting-off point.

6320. And in the end again on the basis of that figure you came to a deal with the Co-ordinating Committee under which their original claim was reduced by 331 per cent.?—We came to a deal whereby, taking the figure that was provided by the formula, we agreed to accept, and they agreed to our having as an allowance, a sum which would be roughly two-thirds of that figure.

6321. So that the formula is still there, surely?—No, I do not think it is.

6322. Well, what is there?—The settlement.

6323. But what is the settlement based on?—As I say, it started not with the formula, but with the claim which the formula had produced.

6324. But what is the difference between the claim which the formula produced and the formula, because there could have been no claim which the formula produced without a formula?—No; that is quite true.

6325. And therefore you cannot separate the figure which the formula produced from the formula?—Oh, yes, clearly.

6326. How?—The formula was on a certain basis, and the result of the formula was a claim of roughly £1,500,000; the formula went.

6327. But the £1,500,000 remained?—But for the purposes of negotiations we began with that figure of £1,500,000.

6328. You took the cash in hand and let the formula go?—I wish we had the cash in hand.

6329. But the important thing, surely, is that your formula produced a figure, and your figure you stood to, and that was the basis of negotiations with the Traders' Co-ordinating Committee?—We negotiated from a starting-off point, and the starting-off point was £1,500,000.

6330. And you do not expect any ordinary person to say that because your formula produced a figure they will remember the figure and forget about the formula?—Well, really, I think that is what you ought to do, because you succeeded in defeating the formula, you know.

6331. Can you tell me what is the relation between the final arrangement between, first of all, your formula which produced the figure, which formula was subsequently forgotten, and the arrangement you have come to with the Traders' Co-ordinating Committee with respect to correspondence between that final settlement you have come to as to the provisions of paragraph (c) of sub-section 1?—The correspondence with paragraph (c)?

6332. Yes?—I hope you will have that evidence before these proceedings close to-day or to-morrow.

6333. But you cannot tell me, and you are a legal adviser of one of the companies, where and how is the correspondence between the settlement arrived at and the provisions of the law which the Tribunal has to administer?—With reference to you, if this settlement is approved, subject of course to evidence of works which qualify under that paragraph and works of sufficient amount, it seems to me that the settlement is abundantly justified and a settlement which the Tribunal would be perfectly qualified to adopt and accept.

*President:* Mr. Morrison, is your point this, that there is no proof that the works in respect of which the allowance is being given enhance the value of the undertaking?

*Mr. Herbert Morrison:* No, Sir. My fundamental point is that neither the railway company nor the Traders' Co-ordinating Committee have endeavoured to comply with the provisions of the section.

*President:* Would you mind telling me with which part of the section have they not complied.

*Mr. Herbert Morrison:* My submission is that it is an obligation on the companies to prove four things: That the expenditure is more than £25,000 on any one of the works; that it is not included in (a); that it enhances the value of the undertaking; and that it is not fully remunerative. The submission which I shall in due course make to the Court is this, that neither the companies nor the Traders' Co-ordinating Committee have endeavoured to prove to each other, much less to the Court, that the claims of the companies under (c) comply with these four requisites of the paragraph.

*President:* Mr. Boothroyd, can you give any evidence at all on those points which will help the gentleman who is cross-examining you, or would you leave it to the other witnesses?

*Witness:* I would rather leave it to the general managers of the companies.

*President:* Would that, for the moment, satisfy you, Mr. Morrison? Of course, I am not shutting you out.

*Mr. Herbert Morrison:* No, that is all right, Sir. But I am a little surprised that the general managers should have to deal with the legal points and that the assistant solicitor should not. But if that is the policy of the railway companies I must reserve my cross-examination on those points.

*President:* It is a question of fact, really, for the general managers to say whether the value of the works enhances the value of the undertaking. I am in your hands. If you like to put the other view to the Witness you can press him about it.

*Mr. Herbert Morrison:* I have now come to the conclusion of my questions.

*President:* I do not want to stop you; all I want is at the earliest moment to get your point into my mind.

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[Continued.]

6334. Mr. Herbert Morrison: I think I have endeavoured to make clear the points to which I was directing my questions. (To the Witness): When the Tribunal comes to make a review under Section 59, perhaps in due course, in what way will they have information before them, and details before them, which will enable them to take into account the provisions of Section 53, subsection (3)?—They will have the lump sum settlement.

6335. But they will have no details?—No, not beyond what the settlement gives.

6336. Now, in the negotiations, can you say that the matter affecting the steamboats was discriminated from the arguments which the Traders' Co-ordinating Committee and I had brought forward—for example, as to whether Parliamentary expenses were expenditure that was proper under paragraph (b), and purchase of land, loans to other people, and mineral supports under railway tracks—were they all associated with the settlement you have come to, or is the settlement more specifically related to the steam-

boats?—The particular matters you have just mentioned arise more in relation to paragraph (b); and there were, of course, a number of items which the traders would have dealt with when they argued that there was no enhancement.

6337. Can you tell the Tribunal whether the final settlement and the concessions which the companies made in respect of paragraph (b) are related to the steamboats or to the other items, or to both the steamboats and the other items?—So far as there is any deduction from paragraph (b) it is a deduction in relation to steamboats only, and there is no deduction in relation to Parliamentary expenses or any other such items.

6338. So that the claim of the Committee has drawn blank from the London County Council?—They have drawn an overhead sum of £2,000,000. In so far as it is now a recorded settlement it is a blank under (b); but, of course, (c) is in a position which probably it would not have been in but for the blank under (b).

Cross-examined by Mr. WORRELL.

6339. With regard to (c) and this £2,000,000. Is this a matter of bargaining in which two or three figures have been put before the persons bargaining?—Yes; quite a number of figures were before them.

6340. What was the minimum that the traders started out with?—That is more than I can tell you.

6341. I am asking because we are not in the inner circle with the traders who have discussed these things?—That is more than I can tell you.

6342. What was the view of the railway companies?—I think you can take it that the traders' minimum was their own; but our maximum was the amount at which our claim stood.

6343. What was that?—The amount of the (b) claim, and the one and a half million pounds under (c).

6344. That is, one and a-half million pounds after deducting the steamboat figures?—No. The one and a-half million pounds I have in mind is the allowance claimed as a result of the formula—paragraph (c).

6345. We start off then with a formula. You started with a formula?—No; with a figure provided by the formula.

6346. What was that figure?—Roughly, one and a-half million pounds. The figure appears in R.T.2a—£1,523,575.

6347. Then the result of the negotiations with the traders has been that possibly there was a difference split of this half a million?—There was a great deal of bargaining which resulted in the settlement that is before you.

6348. Would you agree with me, if I put it to you as a legal authority, that this method of closing the business is *ultra vires*?—No, I should not agree with that.

6349. Do you seriously say that this answers the requirements of the Act in respect of paragraph (c)?—I do not suggest that the settlement, standing alone, answers the requirements of the Act; but I do say that the settlement answers the requirements of the Act when it is fortified by evidence to show that the claim of the companies contains items which will at least justify the amount provided by the settlement.

6350. You think it conforms to the requirements with numerous provisos?—There is only one under paragraph (c).

6351. But, of course, that lays down certain stipulations, does it not? Mr. Morrison has gone through them?—Yes.

6352. But you have gone to a rough-and-ready method of settlement in an inner conclave of people, and you have evidently had in your mind that if you asked anyone outside that inner circle—you said so in evidence, I think—?—I said if you added to the number of negotiators you infinitely multiplied the difficulty of a settlement.

6353. Do not you think it would have been a fair

thing to have taken into your confidence all the people who have a *locus* before this Tribunal?—Yes, it would have been a very delightful thing to do if we had had two years to do it in.

6354. In order to do the thing thoroughly we are taking our time. We were prepared to do it in six months, but I think the railway companies wanted two or three years?—We managed in a month, you see.

6355. But surely, with a number of accountancy gentlemen and legal lights, we could have got this thing into some sort of shape without all of a sudden going off at a tangent and saying, "We will settle it, because we are absolutely sick of it, for £2,000,000." Does not it appeal to you that it was done in that way?—I do not say we were absolutely sick of it. I am not sick of it.

6356. It was such an exhausting thing to carry this on over a period of years that it could not be done?—It is not merely a matter of time. It is, of course, to railway companies and to commercial folk, a matter of expense also.

6357. You keep on piling on these millions. Has it ever come within your ken that, with on one side the receipts and on the other the payments, when you come to the finish, the other side will be exhausted, and there will be a balance against the public and the traders? Has that been considered in taking this rough estimate?—What we are doing at present is, as far as we possibly can, to comply with Section 58.

6358. We have had a quantity of papers put before us to-day for the first time. Have you collected these things and summarised them, and can you tell us just where we are?—Yes. At the moment we are in this position, that we have ascertained the 1913 net revenue subject to one question which remains in abeyance; we have ascertained the allowance under paragraph (a); subject to the decision of the Tribunal, we have ascertained that under (b) and that under (c) also; and we have settled Economics.

6359. This is the last fight.—After to-day's proceedings and the decision—assuming that the decision approves the settlement—we shall be in a position to ascertain the amount of Standard Revenue.

6360. This £2,000,000 is an unalterable figure. If we pass it to-day this £2,000,000 under (c) is an unalterable figure?—The £2,000,000 is a deduction from two claims.

6361. Is it an unalterable figure that is brought about by a secret conclave of people who have agreed it, and who then say, "We have done it," and it is done?—The figure provided by the settlement is unalterable if the settlement is approved. If it is not approved, then paragraphs (b) and (c) are to be gone on with.



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[Continued.]

Mr. Worrall: I shall reserve my remarks on that until afterwards; because I can see this, that if this is our last fight on this £2,000,000 we should know

better just where this £2,000,000 is leading us to; on the figures, if we approve of this, we might have a balance on the wrong side.

(The Witness withdrew.)

Sir RALPH LEWIS WEDGERWOOD, C.B., O.M.G., re-called.

Further examined by Mr. BRUCE THOMAS.

6362. The original claim of the London and North Eastern Company under Section 58 (1) (c) is stated in Schedule E of R.T.2a?—That is so.

6363. And the allowance that was then claimed is brought forward to folio 1, column 2, £396,700?—That is right.

6364. Will you tell the Court what the capital expenditure was upon all the works which are set out in Schedule E?—The total capital expenditure on the works which are set out in Schedule E, as far as the London and North Eastern were concerned, was £31,241,381.

6365. And that represented an average rate of 1·3 per cent. on the capital expenditure?—Yes. The allowance claim represented 1·3 per cent. on the capital expenditure.

6366. The details of the claim as originally submitted were worked out on a formula about which we have heard a good deal?—Yes.

6367. That formula you explained to the Tribunal when you gave evidence on the 20th June of last year?—Yes; a year ago I gave evidence on the subject.

6368. I think you pointed out in your evidence that the operation of the formula was to include some works which had become full fructified, but, on the other hand, to exclude certain other works which had not become fully fructified at the beginning of 1913?—Yes. That was put to me, and I think I plainly agreed it was so.

6369. The effect of the agreement which has been come to between the railway companies and the Traders' Co-ordinating Committee has been to reduce the claim of £396,700 which is shown in column 2 of folio 1, to a certain figure?—Yes; to £247,030.

6370. Have you carefully examined all the works which are set out in Schedule E of R.T.2a?—Yes; the list has been carefully gone through.

6371. Have you excluded from that list all works which might be said to have been fully remunerative at the beginning of 1913?—Yes; we have cut out all the works which were fully remunerative at the beginning of 1913, or where I judged that the evidence on the subject was not available.

6372. Have you done that in a fairly drastic manner?—Yes.

6373. With what result?—We have gone through it, and the result is that the capital originally included in the claim of £31,000,000 has been reduced now to £23,800,772.

6374. You have cut out of the claim over £7,000,000 capital expenditure?—That is so. We have cut out over £7,300,000. I may say that the allowance claim now represents 1 per cent.

6375. Mr. Locket: As against 1·3 per cent. originally?—That is so.

6376. Mr. Bruce Thomas: Are you prepared, after the examination you have made and the exclusions you have made, to tell the Court that there are in Schedule E works costing over £25,000, representing an expenditure of about £24,000,000, which enhance the value of the undertaking and which had not at the beginning of 1913 become fully remunerative?—Yes. I have been through that list of works carefully, and I am satisfied that none is included except such as enhance the value of the undertaking, and, in 1913, were not fully fructified.

6377. And cost—?—Over £25,000.

6378. President: And not being capital expenditure included in paragraph (a)?—Yes.

6379. Mr. Bruce Thomas: You have already pointed out that the allowance represents 1 per cent. on that £24,000,000. But that does not make any

allowance, does it, for any works other than those which were included in the claim originally submitted?—That deals only with claims that are included in the list originally submitted; it does not touch the works that were excluded by the application of the formula.

6380. The effect of the formula was to exclude certain works which had not fully fructified, but to include certain works which had fully fructified?—Yes.

6381. You have now eliminated those works which the formula included, but you have not brought in on the other side those which the formula excluded?—No.

6382. And you put forward this settlement, so far as it affects the London and North Eastern Company, as able to be justified, even on the details which are set out in Schedule E, after making the exclusions to which you have referred?—That is so.

6383. You are prepared, I think, to deal with almost any item in the Schedule; but I am going to ask you to refer in a little detail to a number of works to illustrate the manner in which you have dealt with the matter. You have selected a number of works which represent a capital expenditure of over £15,000,000, have you not?—Yes, for special reference.

6384. As typical of the various types of non-fructification?—Yes.

6385. And the selected works represent about 60 per cent. of the capital expenditure involved?—That is so.

6386. Will you refer first to the Great Central extension to London? I think it was opened in June, 1899.—That is so.

6387. What was the expenditure on that extension to that date?—The expenditure was £10,302,376.

6388. And the claim as submitted by the London and North Eastern Company originally claimed only £14,000 in respect of this work?—Yes; under the application of the formula £14,000 was the sum allotted to this work.

6389. We know that the old Manchester, Sheffield and Lincoln formerly ran across country from the Mersey to the Humber?—Yes.

6390. Then the effect of bringing the line into London was, of course, to enable it to deal with traffic originating in a very different territory and to bring it to London, among other places?—Yes; it got a long haulage instead of a short one.

6391. Is this London extension one which in your view paragraph (c) of Section 51, subsection (1), was particularly designed to meet?—Yes. I infer that to be the case inasmuch as the case of the Great Central extension to London was specifically referred to in the Report of the Rates Advisory Committee.

6392. I think they dealt with it at a great length and pointed out that this was a sort of case for which some provision ought to be made in the proposed legislation?—Yes. They devoted two paragraphs to the discussion of this particular work as an instance of capital that might be regarded as not having fructified.

6393. I want you to give to the Court a few figures in order to show that that extension had not fully fructified at the beginning of 1913. Have you a record of the traffic receipts for the early years of the extension, after the extension was opened?—Yes. The gross traffic receipts from the railway in 1901 were £2,926,000; in 1907 they were £4,030,000; in 1913 they were £4,896,000; and in 1922 they had risen to £9,011,000—but that, of course, is on a different scale of rates.

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[Continued.]

6394. But even allowing for that, there is a steady progress up to and after 1913?—Yes. That relates to the railway as a whole up to the date of its amalgamation.

6395. Do those increasing receipts in your view show a *bona fide* development of the traffic and not merely the flitching of traffic from some other railway?—It is *bona fide* development; it is not obtained at the expense of other routes.

6396. I think you support that by a reference to the position of the lines that might be said to be competitors with the Great Central?—Yes. There is every evidence, I think, that the competing lines have been prospering at the same time. I see that the Great Northern Railway Company's dividend on ordinary capital was 3 per cent. in 1901 and 4½ per cent. in 1913; and that the London and North Western's was 5½ per cent. in 1901 and 7 per cent. in 1913.

6397. President: These are the gross receipts of the whole system?—Yes.

6398. Mr. Bruce Thomas: I have first given you the gross receipts for the whole Great Central system; I am coming to the extension in a moment.—The Midland Railway advanced from 2 per cent. on their deferred converted, to 4½ per cent.

6399. Have you the actual figures of receipts for the London extension of the Great Central from 1900 to 1905?—Yes. They were, as I think I stated in my evidence last year, especially taken out from 1900 to 1905.

6400. Have careful estimates recently been made of the receipts from 1905 to 1913?—Yes. Estimates have been made on the same basis for the period from 1905 to 1913 and in the years 1922 and 1923.

6401. Will you give the Court those figures, which are the receipts of the extension only?—I have not given all the years here, but I think what I have given are a fair selection. In 1900 the receipts were £238,000; in 1902 they had risen to £421,000; in 1905 they had risen to £534,000; in 1908 to £580,000; in 1910 to £624,000; in 1913 to £737,000. In 1922, on the different basis of rates, they were £1,364,000; and in 1923 they were £1,834,000—the latter, of course, with the lower rates, represents a higher volume of business.

6402. Have you a record of the number of passenger journeys originating at the stations on the extension line from 1900 to 1913 and for 1922 and 1923?—Yes. The number of passenger journeys originating at the stations on the extension line in 1900 was 1,676,000. There was then a steady progress until, in 1913, the figure was 3,070,000. In 1923 it had risen to 3,918,000, showing a steady progress which has been continued after the interruption of the war.

6403. Those figures, I think, exclude season tickets?—Yes.

6404. Can you give the tonnages of goods traffic originating at the stations on the extension line? Do they show a consistent development since 1913?—Yes. In the matter of goods traffic there is the same story. My first year is 1906, when there were 719,000 tons; and in 1923 it had risen to 833,000 tons; showing, again, a continuous growth right up to 1913 and beyond.

6405. In 1913 I see there was 13 per cent. increase over 1906, and 1923 is no less than 46 per cent. over?—Yes. That is the traffic dealt with at the stations on the extension line.

6406. When you gave evidence in June of last year you explained that between 1900 and 1905

separate accounts had been kept of the receipts on the extension line?—Yes, that is so.

6407. And I think you gave what is the return on the capital expended was in 1905?—Yes. The estimated return on capital in 1905 was 205 per cent. The figures I gave then showed that was the highest figure then reached as a result of steady progress.

6408. No such accounts have been kept since 1905, have they?—No; we have had to estimate since 1905. But I think the estimate can be taken as a close one.

6409. Are you able to infer what the return on capital in 1913 would have been upon the proportional principle?—Yes. Upon the proportional principle, which, I think, can be fairly applied in this case, I estimate the return in 1913 would not have been more than 29 per cent.

6410. Does that lead you to any conclusion when you are considering whether or not the extension line had fully fructified in 1913?—Yes. I think it leads inevitably to the conclusion that the extension line had not fully fructified in 1913. In point of fact, I think you can credit the whole claim of the London and North Eastern to this one item and not over-estimate the amount by which it fell short of fructification.

6411. That is to say, if you were to limit full fructification of the Great Central extension line to just a little over 5 per cent., and attributed to that line the whole of the allowance you are getting—namely, £247,000—you would merely have obtained remuneration for this one unfructified work?—Yes. I would not like to put any figure on the full fructification.

6412. But if full fructification were to be limited in that way?—Yes; the whole claim of the London and North Eastern put forward now is not more than 24 per cent. on the capital invested in the London extension line. The London extension line, according to the best estimate I can make, was earning at that time 29 per cent.

6413. I want you now to turn from the extension line and to give some particulars with regard to the Great Western and Great Central Joint Line which was opened in June, 1906. I think?—Yes. That was another case to which I made reference in my evidence last year. There, too, you have continued progress from the opening of the line in 1906 up to 1913, and a further continuation since that date. The published accounts of the Joint Line showed it earned 246 per cent. on the capital in 1906. That increased to 429 per cent. in 1913; to 486 per cent. in 1913; and in 1923 the return had increased to 112 per cent. The actual receipts tell the same story.

6414. Will you give those receipts from 1906 to 1924?—The receipts in 1906 were £44,000; in 1913 they were £121,000; and in 1924 they were £296,000. I think that shows that the line was far from having reached a state of full fructification in 1913.

6415. And shows that, in fact, the fructification between 1913 and 1923 had been increased by 6 per cent.?—Yes.

6416. Mr. Jepson: That is the line which cost £844,000?—Yes; and was opened in June, 1906. Of course, it was a joint line.

6417. Mr. Bruce Thomas: The figures you gave were figures of net receipts?—Yes, net receipts.

Mr. Bruce Thomas: I am now going to ask the witness, Sir, about a number of other lines. I do not know whether this is a convenient time to adjourn.

(Adjourned till to-morrow morning at 10.30.)

## APPENDICES.

## STANDARD REVENUE—RAILWAYS ACT, 1921.

Particulars of Investments of Constituent and Subsidiary Companies transferred from Capital Account and not yet realised.

Constituent or Subsidiary Company.	Investment immediately prior to amalgamation.			
	Company.	Description of Stock.	Amount.	Amount transferred from Capital Expenditure.
			£	£

## LONDON MIDLAND AND SCOTTISH RAILWAY COMPANY.

London & North Western ...	Cambrian ... ..	Ordinary No. 1 ... ..	15,000	15,000
Maryport & Carlisle ... ..	Maryport Harbour Com- missioners.	Loan ... ..	10,000	10,000
				25,000

## SOUTHERN RAILWAY COMPANY.

London and South Western ...	International Cold Storage & Ice Co., Ltd.	4% Debenture Bonds ...	50,000	45,000
Do.	Southampton Harbour Board.	4% Redeemable ... ..	25,416	25,416
Do.	Sutton Harbour Improve- ment Co.	772 Ordinary Shares of £25 each.	19,300	21,605
				92,021

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## STANDARD REVENUE—RAILWAYS ACT, 1921.

## SECTION 58 (1) (a).

STATEMENT shewing the Allocation between the Parent Companies of the Capital Expenditure of the "J"—Joint Lines forming the basis upon which Interest was allowed by the Government at 15th August, 1921.

NAME OF JOINT LINE.	Total Capital Expenditure (as per M.T. 1-4).	ALLOCATION.									
		London & North Eastern Rly. Co. (as per Exhibit R.T. 2a—Schedule "C" Amended and Revised).		London Midland & Scottish Rly. Co. (as per Exhibit R.T. 3a—Schedule "C" Amended and Revised).		Great Western Rly. Co. (as per Exhibit R.T. 4a—Schedule "C" Amended).		Southern Rly. Co. (as per Exhibit R.T. 5a—Schedule "C" Amended).		Railway Companies outside the Four Groups.	
		Pro-portion.	Amount.	Pro-portion.	Amount.	Pro-portion.	Amount.	Pro-portion.	Amount.	Pro-portion.	Amount.
	£		£		£		£		£		£
Cheshire Lines Committee	98,295	$\frac{2}{3}$	65,531	$\frac{1}{3}$	32,765						
Great Central and Midland Joint Committee	1,751	$\frac{1}{2}$	876	$\frac{1}{2}$	875						
Great Central, Hull and Barnsley and Midland Committee ... ..	3,276	$\frac{2}{3}$	2,184	$\frac{1}{3}$	1,092						
Great Western and Great Central Joint Committee ... ..	3,314	$\frac{1}{2}$	1,657			$\frac{1}{2}$	1,657				
Great Western and Midland Joint Committee	3,030			$\frac{1}{2}$	1,515	$\frac{1}{2}$	1,515				
Manchester, South Junction and Altrincham ...	1,088	$\frac{1}{2}$	544	$\frac{1}{2}$	544						
Metropolitan and Great Central Joint Committee ... ..	2,543		1,272							$\frac{1}{2}$	1,271
Midland and Gt. Northern Joint Committee ... ..	3,221	$\frac{1}{2}$	1,610	$\frac{1}{2}$	1,611						
Norfolk and Suffolk Joint Committee ... ..	821	$\frac{2}{3}$	615	$\frac{1}{3}$	205						
Oldham, Ashton-under-Lyne and Guide Bridge	5,683	$\frac{1}{2}$	2,842	$\frac{1}{2}$	2,841						
Somerset Joint Committee ... ..	12,197			$\frac{1}{2}$	6,098			$\frac{1}{2}$	6,099		
South Yorkshire Joint Line Committee ... ..	4,243	$\frac{2}{3}$	2,546	$\frac{1}{3}$	1,697						
Whitechapel and Bow Joint Committee ... ..	3,559			$\frac{1}{2}$	1,779					$\frac{1}{2}$	1,780
	143,021		79,677		51,022		3,172		6,099		3,051

8th June, 1925.

£143,021

## STANDARD REVENUE—RAILWAYS ACT, 1921.

Item No. 3 (R.T. 2a, 3a, 4a, 5a).

Capital Expenditure forming the basis on which interest was allowed at the end of the period during which the Constituent Companies and Subsidiary Companies were in possession of the Government, viz., 15th August, 1921 (as per Section 35 (1) (a)), amended in accordance with the decisions of the Railway Rates Tribunal on the 26th May, 1925.

	Railway.	Omnibuses.	Steamboats.	Canals.	Docks, Harbours and Wharves.	Limestone Quarry.	Hotels, Refreshment Rooms and Cabs.	TOTAL.
<b>LONDON &amp; NORTH EASTERN RAILWAY COMPANY.—</b>								
Total Expenditure as per R.T. 2a (Schedule "C")	£ 8,363,667	£ 3,608	£ 745,531	£ 1,175	£ 4,787,280	£ —	£ 211,705	£ 14,116,916
—Amended and Revised	...	...	...	...	...	...	...	...
<b>Deduct :—</b>								
Capitalised Value of Rent Charges, etc.	21,401	—	—	—	16,370	—	—	37,771
Forth Bridge Railway Company's Expenditure	25,194	—	—	—	—	—	—	25,194
Total deductions	46,595	—	—	—	16,370	—	—	62,965
Capital Expenditure as now amended	8,316,072	3,608	745,531	1,175	4,770,910	—	211,705	14,053,951
5 per cent. thereon	...	...	...	...	...	...	...	£702,938
<b>LONDON MIDLAND &amp; SCOTTISH RAILWAY COMPANY.—</b>								
Total Expenditure as per R.T. 3a (Schedule "C")	9,069,102	—	1,266,655	46,059	574,300	12,184	459,812	11,428,112
—Amended and Revised	...	...	...	...	...	...	...	...
<b>Deduct :—</b>								
Capitalised Value of Rent Charges, etc.	29,973	—	—	—	—	—	—	29,973
Capital Expenditure as now amended	9,039,129	—	1,266,655	46,059	574,300	12,184	459,812	11,398,139
5 per cent. thereon	...	...	...	...	...	...	...	£569,907
<b>GREAT WESTERN RAILWAY COMPANY.—</b>								
Total Expenditure as per R.T. 4a (Schedule "C")	5,889,766	—	—	566	1,931,122	—	—	7,821,454
—Amended	...	...	...	...	...	...	...	...
<b>Deduct :—</b>								
Capitalised Value of Rent Charges, etc.	—	—	—	—	—	—	—	—
Capital Expenditure as now amended	5,889,766	—	—	566	1,931,122	—	—	7,821,454
5 per cent. thereon	...	...	...	...	...	...	...	£391,073
<b>SOUTHERN RAILWAY COMPANY.—</b>								
Total Ex. outdure as per R.T. 5a (Schedule "C")	3,584,580	—	39,707	—	210,417	—	—	3,834,654
—Amended	...	...	...	...	...	...	...	...
<b>Deduct :—</b>								
Capitalised Value of Rent Charges, etc.	804	—	—	—	—	—	—	804
Capital Expenditure as now amended	3,583,726	—	39,707	—	210,417	—	—	3,833,850
5 per cent. thereon	...	...	...	...	...	...	...	£191,692

8th June, 1925.

## STANDARD REVENUE—RAILWAYS ACT, 1921.

Item No. 4. (B.T. 2a, 3a, 4a, 5a).

Allowances necessary to remunerate adequately Additional Capital raised in accordance with respect of Expenditure on Capital Account incurred since 1st January, 1913, and not included in Item No. 3 (as per Section 58 (1) (c)) amended in accordance with the proposals made by the Companies on the 25th May, 1925.

	Railway.	Omnibuses.	Steamboats.	Canals.	Docks, Harbours and Wharves.	Hotels, Refreshment Rooms and Cabs.	Miscellaneous Expenditure not relating to first seven items of Account of Railway Companies (Accounts and Returns) Act, 1911.	Total.
	£	£	£	£	£	£	£	£
<b>LONDON &amp; NORTH EASTERN RAILWAY COMPANY.</b>								
Total Expenditure as per R.T. 2a (Schedule "D")—								
Amended ... ..	2,103,827	Cr. 27,432	335,023	Cr. 69,470	895,905	Cr. 40,831	Cr. 338,253	2,858,682
Add:—								
Expenditure on Works costing less than £25,000 each, brought into use prior to 1913 and not included in above ... ..	143,234	—	—	—	20,535	87	660	164,517
Metropolitan and Great Central (Watford Extension) Lines... ..	30,681	—	—	—	—	—	—	30,681
	2,277,742	Cr. 27,432	335,023	Cr. 69,470	916,441	Cr. 40,831	Cr. 337,593	3,053,880
<b>Deduct:—</b>								
Expenditure prior to 1913 included in above in respect of—								
Brudenhill Light Railway ... ..	25,930	—	—	—	—	—	996	26,926
West Dunston Staithes ... ..	—	—	—	—	25,038	—	—	25,038
Amount credited to Capital in 1913 or subsequently in respect of Works, etc., displaced prior to 1913 and not deducted from the total as above ... ..	7,849	—	—	—	625	—	—	7,974
Total deductions ... ..	33,279	—	—	—	25,663	—	996	59,938
Capital Expenditure to 31st December, 1923, as now amended ... ..	2,244,463	Cr. 27,432	335,023	Cr. 69,470	890,778	Cr. 40,831	Cr. 338,589	2,993,942
<b>LONDON MIDLAND &amp; SCOTTISH RAILWAY COMPANY.</b>								
Total Expenditure as per R.T. 3a (Schedule "D")—								
Amended ... ..	2,558,837	—	270,805	Cr. 63,471	97,180	414,186	757,354	4,084,891
Add:—								
Expenditure on Works costing less than £25,000 each, brought into use prior to 1913 and not included in above ... ..	19,557	—	—	—	—	—	—	19,557
	2,578,404	—	270,805	Cr. 63,471	97,180	414,186	757,354	4,054,408
<b>Deduct:—</b>								
Expenditure included in above total in respect of Works costing £25,000 or over brought into use prior to 1913... ..	17,326	—	—	—	—	—	—	17,326



Expenditure included in above total and also included in claim under Section 38 (1) (a) ...	46,941	—	Cr. 16,835	557	1,232	Cr. 164	2,394	34,125
Original cost of Glasgow and South Western Steam Road since 1915 and not deducted from the Total as above ...	—	—	37,861	—	—	—	—	37,861
Amount transferred from Capital Account at date of vesting in respect of Investments ...	—	—	—	—	—	—	25,000	25,000
Total deductions ...	64,267	—	31,026	557	1,232	Cr. 164	27,394	114,312
Capital Expenditure to 31st December, 1923, as now amended ...	2,514,137	—	249,779	Cr. 64,028	95,948	414,350	729,960	3,940,146
<b>GREAT WESTERN RAILWAY COMPANY.—</b>								
Total Expenditure as per R.T. 4a (Schedule "D"—Amended) ...	2,016,518	—	Cr. 112,507	Cr. 73,347	3,548,355	Cr. 7,323	481,620	5,853,316
<i>Deduct:—</i>								
Expenditure included in above total and also included in claim under Section 38 (1) (a) in respect of Flagstaff and Rosslare Railways and Harbour ...	—	—	—	—	—	—	28,000	28,000
Amount transferred from Capital Account at date of investing in respect of Investments ...	—	—	—	—	—	—	139,470	139,470
Total deductions ...	—	—	—	—	—	—	167,470	167,470
Capital Expenditure to 31st December, 1923, as now amended ...	2,016,518	—	Cr. 112,507	Cr. 73,347	3,548,355	Cr. 7,323	314,150	5,685,846
<b>SOUTHERN RAILWAY COMPANY.—</b>								
Total Expenditure as per R.T. 5a (Schedule "D"—Amended) ...	1,201,593	—	Cr. 319,438	—	Cr. 65,319	Cr. 70,729	47,618	793,725
Expenditure transferred from "below the line" to "above the line" and deducted from the above ...	14,823	—	—	—	—	—	—	14,823
Total deductions ...	1,216,416	—	Cr. 319,438	—	Cr. 65,319	Cr. 70,729	47,618	808,548
<i>Deduct:—</i>								
Expenditure included in above total and also included in claim under Section 58 (1) (a) in respect of Waterloo Station enlargement ...	62,053	—	—	—	—	—	—	62,053
Sales of Property, less expenditure subsequent to 31st December, 1912, of Dover and Deal Joint Committee not credited in above total ...	Dr. 113	—	—	—	—	—	3,235	3,192
Amount transferred from Capital Account at 31st December, 1922, in respect of Investments ...	—	—	—	—	—	—	92,021	92,021
Total deductions ...	61,940	—	—	—	—	—	95,266	157,196
Capital Expenditure to 31st December, 1923, as now amended ...	1,154,476	—	Cr. 319,438	—	Cr. 65,319	Cr. 70,729	Cr. 47,638	651,332

8th June, 1925.

E



Original cost of Glasgow and South Western Steamboats since 1913 and not deducted from the Total above	—	—	—	—	—	37,861	37,861
Amount transferred from Capital Account at date of vesting in respect of Investments	—	—	—	—	—	—	25,000
Steamboats lost and replaced	—	—	—	—	—	111,360	111,360
Total deductions	61,267	—	—	557	1,292	27,394	225,672
Capital Expenditure to 31st December, 1923, as now amended	2,514,137	—	—	Cr. 64,098	95,948	414,350	729,960
GREAT WESTERN RAILWAY COMPANY.—							
Total Expenditure as per R.T. 4a (Schedule "D")—Amended	2,016,518	—	—	Cr. 73,347	3,548,355	Cr. 7,323	481,620
Deduct:—							
Expenditure included in above total and also included in claim under Section 58 (1) (a) in respect of Fishguard and Rosslare Railways and Harbour	—	—	—	—	—	—	28,000
Amount transferred from Capital Account at date of vesting in respect of Investments	—	—	—	—	—	—	139,470
Steamboats lost and replaced	—	—	—	—	—	—	—
Total deductions	—	—	—	—	—	—	167,470
Capital Expenditure to 31st December, 1923, as now amended	2,016,518	—	—	Cr. 73,347	3,548,355	Cr. 7,323	314,150
SOUTHERN RAILWAY COMPANY.—							
Total Expenditure as per R.T. 5a (Schedule "D")—Amended	1,201,593	—	—	—	Cr. 65,319	Cr. 70,729	47,618
Deduct:—							
Expenditure transferred from "below the line" to "above the line" and deducted from the above	14,823	—	—	—	—	—	—
Total deductions	1,216,416	—	—	—	Cr. 65,319	Cr. 70,729	47,618
Capital Expenditure to 31st December, 1923, as now amended	1,216,416	—	—	—	Cr. 65,319	Cr. 70,729	47,618
Deduct:—							
Expenditure included in above total and also included in claim under Section 58 (1) (a) in respect of Watendo Station enlargement	62,053	—	—	—	—	—	62,053
Sales of Property less expenditure subsequent to 31st December, 1912, of Dover and Deal Joint Committee not credited in above total	Dr. 113	—	—	—	—	—	3,285
Amount transferred from Capital Account at 31st December, 1922, in respect of Investments	—	—	—	—	—	—	92,021
Steamboats lost and replaced	—	—	—	—	—	—	47,406
Total deductions	61,940	—	—	—	—	—	95,256
Capital Expenditure to 31st December, 1923, as now amended	1,154,476	—	—	—	Cr. 65,319	Cr. 70,729	Cr. 47,638

9th June, 1925.



## STANDARD REVENUE—RAILWAYS ACT, 1921.

Item No. 5 (R.T. 2a, 3a, 4a, 5a).

Allowance in respect of Capital Expenditure (not being less than £25,000 in the case of any work and not being Capital Expenditure included in Item No. 3) on works which at the beginning of the Year 1913 had not become fully remunerative (as per Section 58 (1) (c)), as amended in accordance with the proposals of the Companies.

	London & North Eastern Railway Company.	London, Midland & Scottish Railway Company.	Great Western Railway Company.	Southern Railway Company.	TOTAL.
	(As per R.T. 2a.) £	(As per R.T. 3a.) £	(As per R.T. 4a.) £	(As per R.T. 5a.) £	£
Allowance ... ..	396,700	523,542	310,486	292,847	1,523,575
Less one-third, as agreed with the Traders' Co-ordinating Committee ... ..	132,233	174,514	103,495	97,616	507,858
	264,467	349,028	206,991	195,231	1,015,717
Less further deduction agreed with Traders' Co-ordinating Committee, as per details shewn below ... ..	17,437	33,432	16,500	5,625	72,994
Allowance as amended ... .. £	247,030	315,596	190,491	189,606	942,723

## DETAILS OF FURTHER DEDUCTION AS ABOVE.

	£	£	£	£	£
Capital deduction agreed with Traders' Co-ordinating Committee ... ..	730,000	780,000	330,000	160,000	2,000,000
Less amount allocated to claim under Section 58 (1) (b) in respect of Steamboats lost during Government Control period and since replaced ... ..	381,256	111,360	—	47,496	540,112
Balance ... ..	348,744	668,640	330,000	112,504	1,459,888
5% thereon, deducted as above ... ..	17,437	33,432	16,500	5,625	72,994

8th June, 1925.

*Handed in by Mr. John Quirey.*

J. Q. 4. (Amended and Revised).

## STANDARD REVENUE—RAILWAYS ACT, 1921.

Reconciliation of Net Capital Expenditure of Years 1913 to 1923 inclusive with Claims under Section 58 (1) (a) and (b).

Capital Expenditure.	London and North Eastern Railway Company.	London Midland and Scottish Railway Company.	Southern Railway Company.	Great Western Railway Company.
CONSTITUENT AND SUBSIDIARY COMPANIES.	£	£	£	£
31st December, 1921 (or 1922) ...	341,297,878	442,915,808	148,780,376	—
" " 1912 ...	327,206,006	429,925,362	144,727,012	—
Expenditure from 1st January, 1913	14,091,872	12,990,446	4,053,364	Capital Expenditure —
Amalgamated Companies, 1922 ...	—	1,030,110	—	31st Dec., 1923 ... 167,805,054
" " 1923 ...	767,835	1,019,025	97,662	31st Dec., 1912 ... 156,660,226
TOTAL ...	14,859,707	15,039,581	4,151,026	11,144,828
Add: Proportion of "J" Joint Lines ...	68,921	3,085	27,455 (Deduct)	1,183
TOTAL—1913 to 1923 inclusive	14,928,628	15,042,616	4,123,571	11,146,011
Deduct: Expenditure in 1913 or later upon works brought into use prior to 1913 ...	76,331	27,244	21,438	116,868
Adjustment at date of vesting affecting Section 58 (1) (b) ...	436,808	62,861	3,122	—
Subscriptions to "J" Joint Lines and undertakings now merged in the Group Company ...	752,237	Cr. 20,533	Cr. 35,236	—
	1,265,376	69,572	Cr. 10,676	116,868
Expenditure since 1st January, 1913, comparable with claims under Sections 58 (1) (a) and (b). ...	13,663,252	14,973,044	4,134,247	11,029,143
Amount of Claim under Section 58 (1) (a) as amended ...	14,053,951	11,398,139	3,833,850	7,821,454
Less: Great Western Railway Expenditure at Fishguard not included in Capital Account ...	—	—	—	327,306
Expenditure prior to 1913 on works brought into use after 1st January, 1913 ...	3,666,429	877,934	365,857	2,154,815
Adjusted Expenditure 1st January, 1913, to 15th August, 1921 ...	10,387,522	10,520,205	3,467,993	5,339,333
Balance of Expenditure not included in Section 58 (1) (a) ...	3,275,730	4,452,839	666,254	5,689,810
Amount of Claim under Section 58 (1) (b) as amended ...	2,993,942	3,940,146	651,352	5,685,846
Differences ...	281,788	512,693	14,902	3,964
EXPLANATIONS OF DIFFERENCES.				
Conversion of Stocks ...	217,282	474,718	—	—
Amounts expended and not claimed	64,506	37,975	14,902	3,964

8th June, 1925.

